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THE THEORY OF WAGES ADJUSTED TO
RECENT THEORIES OF VALUE.

"LABOR, like all things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price." Thus Ricardo, as the best representative of the classical school of economists, distinctly enunciates the proposition that wages come under the general law of value and price. Having previously settled to his own satisfaction the theory of value, he then proceeds to develop his theory of wages in strict accordance therewith.

"Labor also has to be studied as a distinctly social element. It has its final increment, and the product of that increment fixes the rate of wages. On one grand law of variation depend the value of goods, the rate of interest, and the rate of wages. . . . It is an all-embracing law."* Thus Professor Clark, as one of the leaders in the new school of economists whose investigations centre around the Austrian theory of value, confirms the opinion

* "A Universal Law of Economic Variation," by John B. Clark, *Quarterly Journal of Economics*, April, 1894, p. 279.

of Ricardo that wages and value come under the same general law.

The classical English economists, after the example of their great leader, were seeking "The Nature and Causes of the Wealth of Nations," or how the national wealth might be increased. It was natural, therefore, that they should concentrate most of their attention upon the subject of production, and treat exchange, distribution, and even consumption from the standpoint of their bearing upon the increase of wealth. Adam Smith's greatest contribution was his inimitable presentation of the productiveness of exchange, based as it is upon the principle of the division of labor. Ricardo's theories of rent and wages were intended to explain why goods were not produced more cheaply and abundantly. J. S. Mill, with great acuteness and consistency, from his standpoint distinguishes between productive and unproductive consumption. Clearly apprehending that fundamental principle of economic science which goes by the name of the law of supply and demand, these economists made a much more thorough analysis of the side of supply than of the side of demand. They knew perfectly well that the "effectual demand" for a commodity increased or diminished as its price fell or rose; but it was no part of their work, as they conceived it, to enter into an analysis of human wants to find out why it was so. It was reserved for a later school to call attention to the principle of the variability and satiability of wants, and to develop a new theory of value based upon that principle.

The classical economists, being concerned chiefly with the question of production, observed a general tendency in most commodities to exchange in the ratio of their costs of production. They quite naturally arrived at theories of "natural value," "normal price," and "natural wages" based upon the cost of producing commodities in the one case and of maintaining the supply of labor in the

other. Accordingly, they gave a very thorough and complete analysis of the factors which enter into the cost of production of goods and a fairly complete analysis of the cost of production of labor. So far as the older economists went, they were eminently wise and consistent; and their fault, which was manifestly no fault at all, was that they had not completed the science by knowing all that was to be known about it. Later developments in the theory of value, however, seem to make desirable a re-statement of some of the problems that cluster around that theory.

In the first place, it is now apparent that cost of production is only one factor, and by no means the most important factor, in the determination of value. Cost of production is only one of the things that limit supply, and only in so far as it operates to limit supply does it enter into the question of value or price. The chief service of the theory of the variability and satiability of wants is to show us the principles which limit demand, as cost of production, in the case of those commodities which can be increased or diminished in quantity by industry, limits supply. Until we understand how demand is limited, no satisfactory reason can be given why every useful thing—air, for example—should not possess value. There is a limit to the supply even of air. Unless demand were in some way limited, even air must have a value. Air is not only limited, but it is appropriable. There are a certain number of cubic feet of air in my room. I can close the windows, and appropriate it; but I cannot sell it. The supply of air is so great that under ordinary circumstances our desire for it is fully satiated before any scarcity is felt. What any one may be able to appropriate does not, under ordinary circumstances, leave other members of the community with less than they want. Everything, of which the supply is so limited that any member of the community is unable to procure enough to thoroughly satiate his

desire for it, has a value; and nothing else has. It is immaterial to the question of the value of a commodity whether its supply is limited by one cause or another.

With some things the supply is absolutely fixed, and cannot be increased by human exertion. Senior mentions meteoric stone as an example. The paintings of the old masters and other rare works of art also illustrate the same point. In such cases, the cost of production does not enter into the question of value. There are some things, on the other hand, of which the supply is chiefly limited by the cost of producing them. In such cases, the final utility of successive increments decreases until it is no more than sufficient to repay the cost of producing them. Here production will cease, because no more could be produced without a loss. If the cost were less, production would go on further: if it were greater, production must have ceased earlier. If the production of silver, for example, becomes cheaper, the price of silver will not immediately be proportionately reduced; but the increased profits of mining will induce a greater production. The increased supply will ultimately reduce the marginal utility and the value of silver. If it becomes more expensive to mine silver, the increased cost is not directly added to the price of silver; but it will indirectly raise its price. The diminished profits will drive out the marginal producers of silver, so that the supply will ultimately be reduced, and the final utility and the value will be raised. In the case of silver and of most other commodities the efficient cause for the limitation of the supply is the cost of production.*

If we may interpret production to mean the placing of things in such relations that they may be utilized in the

* It is true that the value in such cases corresponds to the cost of producing the most expensive increment, but it is as nearly correct to say that the value determines the most expensive increment as to say that the most expensive increment determines value. The value of the product determines the margin of cultivation quite as truly as the margin of cultivation determines value.

satisfaction of wants, we shall find that the principle of cost of production as limiting supply applies to land as well as to other commodities, but in a slightly different way. Throughout the community there is a certain fixed quantity of land that can be utilized. Until the limitations set by nature are reached,—in other words, so long as there is unoccupied land in the community,—the only effective limits to the supply of land are those set by the cost of making use of it,—of cultivating the poorer qualities or of overcoming the obstacle of distance in the case of the more remote portions.

When we come to view the subject of cost of production in this light, it must appear that much of the discussion that has taken place in economic science is groundless. The disputants are looking at different sides of the same shield. Take, for example, the discussions of the past over the theory of rent. The Physiocrats, who held that rent was due to the productivity of land, or the "bounty of nature," were at least half right. But they overlooked the fact that nature was also bounteous in air and sunlight, yet they command no rent. Ricardo, who accounted for rent solely on the ground of the scarcity of fertile land, or the "niggardliness of nature," was scarcely more than half right; for nature is just as niggardly—speaking absolutely—of unproductive as of productive land, yet unproductive land commands no rent. The Physiocrats held that land would command a rent because its productivity made it a thing to be desired or demanded. Ricardo held that it would command a rent because the available supply was limited. The Ricardians very justly assert that land is only demanded where it is scarce, but the Physiocrats might with equal justice retort that land is only scarce where it is demanded; and we may also remark that the same two assertions may be made with regard to any other commodity. To the Ricardian argument that a piece of land yields a surplus only be-

cause land of like kind and quality is scarce, the Physiocrats might consistently reply that land of that particular kind and quality may be no scarcer than land of any particular kind and quality below the margin of cultivation, and that the difference is in the fact that people *want more* of that particular kind and quality.

Among rational writers on the subject of Interest, some have held that it is paid because capital is productive, and others that it is a reward for abstinence. In the *Quarterly Journal of Economics* for October, 1893, I have attempted to show that both productivity and abstinence are necessary to the existence of interest. The productivity of capital is the basis of the demand for it; but, unless the supply were limited, it would be as impossible to get interest for capital as for air. The sacrifice of abstinence is the efficient cause for the limitation of the supply of capital. It is the purpose of this paper to attempt an analysis of the demand and the supply of labor, and to bring the question of wages under the same general law of value and price.

In tracing out the complex elements that enter into the question of wages, men are prone to wander from the primary fact that demand and supply fix the rate of wages just as they do the price of commodities. The productivity of labor, the standard of living of the laborer, his probable duration of life, the danger or disagreeableness of the work itself, and other similar conditions, only affect wages as they influence the demand for or the supply of labor. This statement ought to be as trite as any in economic literature; but, from a study of current writers on wages, it appears to be less trite than novel. This is perhaps a sufficient justification for appearing to ring the changes on demand and supply.

Demand, as Marshall emphasizes, is essentially a feature of consumption, and applies primarily only to consump-

tion goods. The demand for the instruments of production is derived from that of the goods which they produce. In either case, the demand is based solely upon the utilities which the things afford,—directly in the case of consumption goods, indirectly in the case of instruments of production. A considerable portion of total demand for land is based upon the utilities which land affords directly, as in sites for dwelling-houses, parks, and pleasure grounds. Similarly, a certain amount of borrowing is done for the purpose of direct consumption, and a certain amount of labor is employed in personal services. But by far the greater part of land, labor, and capital, is used for the purpose of producing goods for direct consumption. Moreover, the demand for these factors, whether for direct or indirect use, is based on the same law of variation. Therefore, for the purpose of this paper, we may ignore the difference in the two kinds of demand, and speak of the demand as based upon the productivity. It will make no difference in the final result.

The productivity of each of the three factors of production is subject to the same law of variation as the utility of consumption goods. The productivity of successive increments of either of the factors of production diminishes in the same manner as the utility of successive increments of consumption goods. This gives rise to the law of final or marginal productivity, corresponding to the law of final or marginal utility. As the value of any kind of consumption goods is determined by the amount of utility which the last and least useful increment affords *directly*, so the selling price of a factor of production of any special kind and quality is determined by the amount of utility which the last and least productive increment is capable of affording *indirectly*.

In the first place, if one of the factors of production — land, for example — is abundant, those commodities which land supplies will be abundant, and will consequently

have a low marginal utility and value. Thus the land would produce a small amount of value. In a new settlement in a timbered country the products of the forest are cheap. Cattle on the plains of South America are worth but a few cents apiece. The land, under such circumstances, is probably capable of producing, with equal care, as large quantities of beef or timber as in more thickly settled countries; but it produces less value. This same principle will apply equally well to labor or capital. Where labor is abundant, as in China, the distinctive products of labor will be cheap because of their abundance and their low marginal utility.

In the second place, neither land, labor, nor capital, is alone capable of producing anything of value. The co-operation of all is necessary. The laborer must at least have land to stand on. Even then, without the assistance of capital in some form, his power of production will be almost nothing. Land, if we except the spontaneous fruits of the virgin soil, is absolutely barren unless labor and capital are applied. Capital in the absence of land and labor is manifestly unproductive. Good results can only be obtained by the combination of all three factors. When any one of the factors is abundant relatively to the other two, it is at a disadvantage so far as the opportunity for profitable employment is concerned. Thus, if land is abundant relatively to labor and capital, it must suffer from lack of proper cultivation; and its marginal productivity, even of quantities of commodities, will be reduced, and its marginal productivity of values will be reduced in a still greater degree. The community would suffer less loss in total production if an acre of land were annihilated than it would if land were less abundant or labor and capital more abundant. If land were scarce relatively to labor and capital, each acre would contribute a greater share of the total value produced in the community than if it were abundant. Its cultivation would

be more intensive; and the annihilation of an acre would displace more labor and capital, and cause it to be employed along a lower and less profitable intensive margin on the remaining portion. Consequently, land would, under these conditions, have a high marginal productivity; and the last increments of labor and capital, being employed along a comparatively unprofitable margin of cultivation, would have a low marginal productivity. A certain quantity of labor or capital could be lost without so serious a diminution of the total product as would be the case if land were relatively more abundant. The loss would be taken off the least productive margin of cultivation, and in either case the marginal productivity of the remaining portion would be increased. But, when land is relatively scarce, cultivation is extended to a less profitable margin than when it is relatively abundant.

If capital is abundant relatively to land and labor, the opportunity for profitable investment is diminished. We must assume that at any given time the laborers are supplied with as much auxiliary capital as they can, with the knowledge they possess, make use of at the current rate of interest. If it is known to men that they can increase their profits by the use of more capital, there is no conceivable reason for their not using it. But, if men cannot see how they can profitably use more capital at current rates of interest, then there is a good reason for their not using more. This is one of the assumptions upon which the doctrine of the diminishing productivity of capital as well as of labor rests. Did the productivity of capital increase as fast or faster than its quantity, we might expect every user of capital to augment his supply of tools and machinery "world without end." But the manufacturer, as well as the carpenter or blacksmith, always comes to a point where the advantages of a few more tools are not sufficient to repay their cost.

If labor increases relatively to land and capital, the

laborer is handicapped by lack of proper tools and sufficient room to work to the best advantage. He can therefore be less profitably employed than he can when there is a smaller number of laborers. The last laborer added to the supply adds less to the total product than his predecessors. The marginal productivity of labor is reduced. The loss of a laborer would make less difference in the total product than if laborers were scarcer.*

Hitherto we have excluded the consideration of dynamic changes, such as the discovery of new processes or changes in consumption, etc. Under static conditions we have found that the marginal productivity of a factor of production varies inversely as the supply of that factor. Here we may remark that there are numerous dynamic elements that obscure, but do not obliterate, the workings of this law. A change in taste or fashion may increase the demand for those commodities in which labor enters as the chief factor, and diminish the demand for those in which land enters as the chief factor, and thus raise wages and reduce rent, even while labor is increasing faster than land. An invention may enable one of the factors to be substituted for another, and displace it to a certain extent. An improvement in construction which permits the erection of twenty-story buildings enables capital to displace land to a limited extent. The same service may be performed by a smaller quantity of land when twenty floors are used than when only ten can be used. This will have a tendency to keep ground rents lower than they otherwise would be.

There are, as we have already seen, two distinct reasons for the diminution of the productivity of the successive increments of the factors of production. First, the general diminution of the marginal utility of the products themselves operates to reduce the value produced per unit

*See Clark, "Law of Wages and Interest," and Stuart Wood, "The Theory of Wages," in vol. iv., *Publications of the American Economic Association*.

of either of the factors. Second, a relative abundance of one of the factors over the others tends to reduce, not only the values, but also the quantity of things dependent for their production upon each unit of the more abundant factor. The first may operate upon all three factors either simultaneously or separately. The second may only act upon them separately as their ratios vary.

The subject of the demand for capital is comparatively simple. The marginal productivity of capital tends to an equality throughout the economic community. Slight differences in rates of interest are easily accounted for. Capital differs from land in that it is mobile and capable of indefinite concentration, except in extraordinary cases, at the time and place of greatest productivity. It moves somewhat slowly and with a certain amount of friction; but, if time is given, it will find the point of greatest productivity. Thus there tends to be a common rate of interest in the community, and the subject of capital is not complicated by the question of rent. Capital differs from labor power in that it can be indefinitely increased or diminished in any of the multiplicity of forms in which it is capable of being employed. Those forms of capital which promise the greatest productiveness may be in general increased until their marginal productivity is reduced to the level of other forms.* There is always a flow of new capital seeking investment, and it tends to seek the most productive fields. But labor power is embodied in men, and it is not possible to indefinitely increase or diminish special forms of ability at will. Hence we have to deal with the question of difference of wages in different occupations. The flow of new labor power that is constantly seeking employment has its character largely predetermined by forces that are not subject to human direction.

* Patents, of course, are an exception. The extra profits due to such monopolies form a species of rent.

Differences in rent are due to the inability to indefinitely concentrate land in the forms and the times and places of greatest productivity, and differences of wages are due to the inability to indefinitely concentrate labor power in the forms where it is most productive. Owing to the slowness with which capital moves, it frequently does, for limited periods, in certain forms or times and places, command a rent; but this cannot be permanent.

Here let us decide upon a distinction between labor power and capital. That between labor and land is clear, and that between land and capital does not concern us in this paper. We shall include under labor power all subjective means of production, whether native or acquired. This will include all those talents acquired by education, training, and those physical, mental, and moral qualities due to good food and family surroundings, as well as native and inherited qualities. Some have preferred to regard the expenses of education and training as an investment of capital, and the increased productiveness which results as interest. This may be quite logical, but it can scarcely conduce to clearness. There is no way of distinguishing between the expense of education and the general expense of rearing. It would be quite as logical to go still further, and regard the whole expense of rearing and also of maintaining the laborer as an investment of capital, and reduce the whole question of wages to one of interest. Then, if, with Professor Hadley,* we reduce the question of interest to "commuted profits," and follow out his argument consistently, by reducing rent also to commuted profits, we shall then be in the delectable position of having nothing but profits to deal with. In other words, we shall have the whole question of distribution to go over again to see what determines how much of profits are commuted as interest

*"Interest and Profits," *Annals of the American Academy of Political and Social Science*, November, 1893.

and rent, and how much of interest goes in the form of wages. The argument in favor of regarding the expenses of education as an investment of capital receives some support from the comparison with land and the improvements upon it. The objection to this line of argument is likewise from the standpoint of convenience rather than of logical consistency. Improvements on a piece of land may in many cases be removed if a more profitable field presents itself; but education becomes a part of the man, and can in no case be transferred to another and more promising subject. Improvements on land are made solely to increase its value; while much that we call education is largely a matter of consumption, and is undertaken principally for the pleasure of it. The education itself is the reward, and whatever it adds to the man's productivity is a clear gain. Actual business practice enables us to determine approximately what share of the value of real estate is due to improvements and what to the land itself. We are accustomed to settling prices on real estate in every stage of improvement; and we have learned to estimate the value of most forms of improvements. The price of land and of capital goods is, as Böhm-Bawerk has shown, but the expression of the capitalized value of future production. This shows that in actual life men estimate the productive capacity of land and its improvements separately. But as yet we have no method of estimating what portion of a man's productiveness is due to native capacity and what to acquired talents. The fact that separate estimates are not made of the value of a man and his improvements on the basis of the capitalized future production of each is evidence that business practices are in favor of treating labor power as homogeneous, regardless of how the individual comes to possess it.

We have seen that the demand for labor is based upon its productivity, that the productivity of labor is subject

to the law of diminution with successive increments of the supply, and that the effective demand for labor in general is based upon the productivity of the marginal increment. Wages will tend to a level with the productivity of the marginal laborer. The mentioning of the marginal laborer suggests the question what determines the margin, or what determines the supply of labor. This brings us to another and equally important side of the question of wages. Unless the supply of labor is in some way limited within definite bounds, there will be no wages. Labor would increase until its marginal productivity reaches the zero point.

In the first place, the supply of labor is a quantity of two dimensions; and each dimension is limited by a somewhat different set of circumstances. The total supply of labor may be increased either by increasing the number of laborers or by increasing the intensity with which each labors. By intensity we mean the amount of productive energy expended by each laborer. The time during which he works is one of the factors of the intensity. This conception of intensity is somewhat at variance with the quantitative notions of labor as given us by Jevons.* He regarded the quantity of labor as the product of time and intensity, and intensity to consist in the quantity of work done or the painfulness of doing it. The painfulness of labor does undoubtedly help to limit the amount of labor performed, but it does not seem expedient to regard the painfulness itself as a part of the quantity of labor. Besides, the painfulness of labor limits the time quite as effectively as the rate of labor. On the whole, it seems better to treat both the time and rate of labor under the head of intensity, since the same cause — namely, painfulness — limits both. It is immaterial to the laborer whether he works long hours at a slow rate or short hours at a rapid rate, provided the pain or sacrifice is equal in both cases.

* *Theory of Political Economy*, London, 1879, pp. 184, 185.

Any treatment of the subject of wages which ignores the question of numbers is incomplete. If we conceive of a man as living alone in a Robinson Crusoe state, the question of numbers might very well be ignored, and the subject be treated simply from the standpoint of a calculus of pleasures and pains. There would then be no question of distribution, and the reward of labor would be purely a matter of production. We might then stop when we had shown that the laborer would quit working when the painfulness of further labor would outweigh the pleasure of further reward. But, when other laborers enter upon the island, a new element is introduced. The question of the reward of labor is still a question of production, but of production under changed conditions. The laborer has more limited means at his disposal, and also has a chance for co-operation and a division of labor. The introduction of numbers gives rise to a question of distribution.

As already suggested, the intensity of labor is regulated by the pain or the sacrifice involved in labor. The total sacrifice consists not only in the positive pain of weariness, but in the confinement which prevents the laborer from the fullest enjoyment of his earnings * and a number of other disagreeable features. Still, the factors which regulate the intensity of labor are comparatively simple.† But the factors which regulate the other dimension of the supply—namely, numbers—are more complex, and vary somewhat among different occupations. With the general class of unskilled laborers the question of the limitation of this dimension of the supply is mainly involved in the question of population.

Consistently with the cost of production theory of value which he held in common with the other classical econo-

* Patten, "Cost and Expense."

† See Clark's "Law of Wages and Interest," "Possibility of a Scientific Law of Wages."

mists, Ricardo endeavors at some length to show that the natural price of labor is fixed by the cost of producing laborers. "The natural price of labor is that price which is necessary to enable the laborers, one with another, to subsist, and to perpetuate their race without either increase or diminution." In his subsequent argument he considerably modified this rigid form of statement by showing that this price depends largely upon what the laborers themselves consider necessary. Yet in the end he leaves no doubt that he believed that in the long run the tendency was to force the standard of living down to a subsistence minimum. Though Ricardo's form of statement is the more rigid, yet practically the same opinion had been common to his predecessors, including Adam Smith.* To Malthus belongs the credit of having first made a thorough application of the standard of living to the wages question. He first insisted upon the possibility and the importance of raising the standard of living of the laboring classes, by education and more liberal surroundings, so that an effective prudential check on population would be introduced. In common with the other early English economists he concurred fully in the cost of production theory of wages; yet he explained more fully than any one else in what the cost of production of labor consisted,—that it meant, in fact, simply the standard of living of the laborers.

So long as we limit the discussion to the general class of unskilled laborers, the correspondence is tolerably complete between the cost of production of other commodities and the standard of living of laborers. The one operates in essentially the same manner upon price as the other does upon wages.

1. A rise in the standard of living of laborers tends to reduce the amount of labor that will be supplied at any given rate of wages by diminishing the birth-rate, just as

* *Wealth of Nations*, Book I. chap. viii.

a rise in the cost of production of another commodity will reduce the amount of that commodity that will be supplied at any given price.

2. With a given standard of living, a rise in the rate of wages will result in a higher birth-rate and a larger supply of labor, just as, with a given cost of production, a rise in price of another commodity will result in a larger production of that commodity.

3. The laborer does not consciously estimate what it has cost to produce him, and then set the price of his labor accordingly. Neither does the farmer thus set the price of his wheat. In either case, production precedes sale; and the seller gets all he can, regardless of cost of production. But in either case, if the sellers are unable to get enough to induce a continuance of the same rate of production, the supply will be eventually diminished until the price does become a sufficient inducement to continue production. Though the nature of the motives that operate in the two cases are quite different, the effect on price is quite similar.

4. It must be conceded that the standard of living is not the only factor that limits the number of laborers. On the outside is the limit set by the physical capacity for human increase. But one of the important differences between economic man and the uneconomic animals is that with man reproduction does not begin so early nor continue so rapidly as is physically possible. But numerous other causes than economic considerations doubtless check population within the outside limits set by nature. For a variety of reasons society has placed its condemnation upon extremely early marriages. There are other legal and social restraints that also operate in the same way. With equal justice may it be said that cost of production is not the only factor that limits the supply of any commodity. With every commodity there are certain outside limits set by nature, and in many cases there

are legal and social restraints. But within these bounds cost of production does operate. In fact, it operates to such an extent that the supply never reaches these outside limits, so that all other factors become *practically* inoperative. Similarly with population. Economic considerations, the fear of lack of means of subsistence,—according to prevailing standards,—operate to limit population within the bounds set by other factors, so that they become *practically* inoperative; and the standard of living becomes the efficient cause for the limitation of numbers. After allowance is made for all other possible checks, the fact remains that the standard of living operates as a still further check. It adds considerably to the height of the dam that keeps back the flood of possible human increase. This is shown by the statistics of marriages.

In his paper on "Marriage-rates and Marriage-ages,"* Dr. William Ogle has shown most conclusively that in England the marriage-rate varies with the value of exports, and that such statistics as are available indicate that it varies inversely with the number of the unemployed. The marriage-rate in Michigan for the last twenty years has noticeably fallen off in years of depression. In continental countries the marriage rate varies inversely with the price of rye. As might be inferred, the birth-rate varies with the marriage-rate.

These and other instances do but verify the conclusions that one might deduce from the general facts of observation and experience. The plain question of bread and butter enters into a man's calculations even on the subject of matrimony. If the man's standard of living includes not only butter on his bread, but sugar on his butter, it is then a question of bread and butter *and* sugar that enters into his calculations. In other words, if the question of means of living enters into his calculations at all, it must be a question of living according to some standard;

* *Journal of the Royal Statistical Society*, June, 1890.

and it makes a vast difference whether that standard be high or low.

The present tendency of economic science is toward a study of man as the economizer, the satisfier of wants, the chooser between pleasures and pains. Therefore, we may, with perfect propriety, treat man's domestic in common with his other wants, and study his satisfaction of these wants as a part of his economic activity. In accordance with the principle of the declension of utility and the satiation of wants, a man will procure first the thing that satisfies the most pressing want. But after a time that want becomes so far satiated as to be less pressing than another. Then the man's attention will be turned to the satisfaction of the next, and so on. A man will probably be sure of a certain amount of bread before he tries to procure butter. But, when his economic condition assures him of a partial satisfaction of his desire for bread, his desire for butter becomes stronger than his desire for an additional piece of bread. Then he will procure butter also. In the same manner, after his desire for bread and butter is assured of a certain degree of satisfaction, another desire — *e.g.*, that for sugar — becomes effective in giving direction to his activity; and thus, as his economic condition continues to improve, a larger number of desires rise above his horizon, and become effective in directing his economic activity. Somewhere in the scale of desires, his domestic affections have a place, and become effective in their proper order. The position of this particular class of wants in the scale makes what is called the standard of living. Thus it will appear that a high standard of living, when referred to the question of population, may mean one of two things. It may mean that the general scope of the people's wants has been widened and deepened, or that the domestic affections * have been weakened, or both.

* For want of a better term we are compelled to use the term "domestic affections" in a somewhat general sense, including the sum total of those

On the whole, we have every reason for believing that the standard of living acts as an effective check on the increase of numbers and the supply of laborers in general. Therefore, we conclude that the true theory of wages is to be found in a combination of the "marginal productivity," or the "no rent increment," theory of Professor Clark and the "standard of living," or "cost of production," theory of the classical English economists. The law of diminishing productivity furnishes the principle which regulates the demand for labor; and the standard of living, or the cost of production, furnishes the principle which regulates the supply. A suggestive addition to the cost of production side of the theory is attempted in the interesting works of Mr. George Gunton.*

Other writers have shown that different increments of the amount of labor which each man performs cost him different degrees of sacrifice. What we have called intensity of labor is subject to the law of increasing cost. Mr. Gunton has also pointed out that different laborers have different standards of living. This amounts to saying that different increments of what we may call the extensive dimension of the supply of labor are produced at different costs. While it is doubtless true that wages must in the long run be high enough to repay the cost of producing the most expensive increment necessary to carry on production, yet it does not follow that the standard of living of the marginal laborer *directly* fixes the rate of wages. The fact that a man has a high standard of living will no more enable him to get high wages than the fact that an individual bushel of wheat cost the producer a great deal will enable it to sell at a high price.

motives which impel toward marriage and the begetting of offspring. If we distinguish between the animal passions and the higher domestic affections, we shall find that the latter quite often check rather than increase population by making parents more considerate of the future of their children.

* *Wealth and Progress and Principles of Social Economics.*

The standard of living of laborers and the cost of producing wheat only affect wages and the price of wheat by limiting the quantity supplied. It is, perhaps, more nearly true to say that the marginal increment of labor is determined by the price of labor than to say that the price is determined by the marginal increment, though the influence of both is reciprocal. An interesting analogy exists between the price of land on the margin of cultivation and the marginal laborer whose standard of living is so high that he is prevented at current rates of wages from reproducing his kind. There is also an analogy to the intensive margin of cultivation in the probability that there is a limit to the size of the family of every man, and that this limit is affected by and varies with the price of labor. The essential point in these analogies is that different increments of the total supply of labor require different rates of wages to induce their production.

In addition to the intensity of labor and the increase of numbers, we must take account of the fact that labor is not equally painful to all laborers. With some the distaste for labor is so strong that they refuse to work unless they can get the highest wages. Accordingly, rather than accept lower wages they will remain idle. In this respect also there is an ascending scale of cost in the supply of labor, for we cannot regard labor as actually supplied until it is put on the market. Aside from the question of population there are different numbers of laborers that will offer themselves for work at different rates of wages. In this sense also there is a marginal laborer, or one who is just induced to work at any given rate of wages.

The two apparently contradictory theories of wages which we have been considering are to be harmonized in much the same way as the cost and utility theories of value and the abstinence and productivity theories of

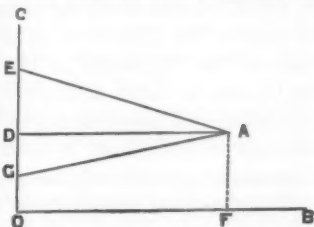
interest have been harmonized. The supply of labor will tend to increase until the last and least productive increment is just able to earn sufficient to compensate for the cost of production and maintenance of the most expensive portion, or until the price is just sufficient to induce the last increment to be put on the market. Wages will tend to correspond to both the marginal productivity and the marginal cost.

An obstacle to the perfect working of this law as applied to labor is the length of time necessary to greatly increase or diminish the total supply of labor. Population changes very slowly, though the fund of unemployed labor may act more quickly on the supply. But it will be difficult to find two commodities whose supplies can be increased or diminished with precisely the same degree of expedition. Labor is simply an extreme case among those commodities whose demand and supply are very slowly adjusted to one another. Yet there is the same tendency for such an adjustment to take place as has long been observed in regard to other commodities. But, in the case of wages, another fact affects the adjustment. A change in the rate of wages so slowly affects the population that the standard of living of the laborers may itself change before the change in the supply brings wages back to the former level. The harshness of the "iron law of wages" is materially softened by the fact that in a free society, and especially in a country of universal education, the standard of living is more easily raised than lowered. The tendency of freedom is to encourage aspirations and ambitions, while the inevitable result of education is to broaden the mental horizon and develop new desires. The inherent optimism of Malthusianism, when properly understood, appears in this connection. To this end Malthus became an apostle of free institutions and political equality, as being conducive to the development of self-respect, dignity, and thrift on the part of the laboring

classes. He attributed habits of improvidence and other proletarian vices to "despotism, oppression, and ignorance." It is something more than mere prediction to suggest that along the lines of liberal surroundings, education, and culture lies the ultimate solution of the labor problem.

Hitherto we have considered the two dimensions of the supply of labor separately. In order to combine them, it will be necessary to adopt some kind of a labor unit. We have already seen that different increments of the expenditure of productive energy involve different degrees of sacrifice on the part of the individual laborer, and secure him different amounts of utility. We have seen, also, that different increments of the supply of laborers are produced at different degrees of cost, and have different degrees of productivity. Now, if we adopt a unit of labor consisting of an hour's labor of a single man at a given rate of expenditure of energy, we shall come naturally to the proposition that the different labor units are supplied at different degrees of sacrifice or cost, and produce different amounts of utility. The law of wages at which we finally arrive will be that *the price of a labor unit will equal the marginal productivity of labor units, on the one hand, and the marginal cost, on the other.**

*This may be illustrated by the familiar diagram. Let the number of labor units be measured along the line OB, and let both the productivity and the cost of the labor units be measured along the perpendicular line OC. Let the productivity of successive increments of labor units be represented by the descending line EA, and their cost by the ascending line GA. The supply of labor will continue increasing until the line EA cuts the line GA. The height of this point of intersection, A, above the line OB, will represent the rate of wages. In this case, the rate of wages will be represented by the line OD, the length of which measures both the productivity and the cost of the last labor unit.



Perhaps the most unfortunate result of a rigid adherence to the "cost of production" theory of wages appears in discussions of the causes of differences of wages in different occupations. Adam Smith lays down the proposition that "the whole of the advantages and disadvantages of the different employments of labor and stock must, in the same neighborhood, be either perfectly equal or continually tending to equality. If in the same neighborhood there was any employment either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments." * In his enumeration of the principal circumstances which "make up for a small pecuniary gain in some employments, and counterbalance a great one in others," he names "the small or great trust which must be reposed in those who exercise them." This contains the rather startling implication that it is a disadvantage to have confidence placed in one's self. This is manifestly carrying the cost of production theory a little too far. Moreover, in the other circumstances which he names, he assumes that the difference in the wages between skilled and unskilled occupations is entirely due to the difference in the expense of learning them. But the capitalization of the difference in wages will in many cases prove out of all proportion to the difference in the expense. It would be just as easy to account for differences in the rent of real estate on the basis of the difference in the cost of the improvements. In the case of labor, account must be taken of differences in native and hereditary qualities, just as we must take account of difference in situation and "original and indestructible powers of the soil" in the rent of land.

The marginal productivity of labor of any class determines the rate of wages of that class. But, with different

* *Wealth of Nations* (Rogers ed.), vol. i. p. 108 et seq.

kinds and qualities of labor, there are different causes for the limitation of the supply. Hitherto we have simply discussed the causes which limit the general class of unskilled labor. When we consider the supply of skilled or professional labor, we shall find some new factors entering in. There are certain forms of ability so unique and exceptional that it is practically impossible either to increase or diminish the supply. Nature seems to have set the limits, and the possessors of such qualities enjoy a monopoly as absolute as the possessor of meteoric iron or a Sistine Madonna. There are other orders of ability that are capable of cultivation to a more or less limited extent. It is perhaps possible for the average man to acquire proficiency in any of the majority of skilled occupations, if he trains long enough and carefully enough. But different men can acquire proficiency in a given skilled occupation with different degrees of expense, owing to differences in natural talents. The tendency will be for as many men to go into that occupation as can do so with advantage to themselves. But, when those best fitted for it have gone into it, it begins to cost the additional men more and more in the way of preparation. Finally, the man will be reached who is so ill-adapted for that line of work that it will cost him in preparation all that he will ever gain from it. Here the supply of that kind of labor will cease; and its rate of wages will be measured by the *productivity*, as well as by the *expense* of the marginal increment. Those who are able to acquire proficiency in that line of work at a less cost than the marginal man enjoy a rent for their personal qualities.*

The nature of what is usually termed superior ability or talent needs examination. It may mean the capacity

* This may be illustrated by the diagram on page 309. Let the number of laborers be measured along the line OB, and the productivity along the line OC. The line EA will then represent the declining productivity, and GA the increasing cost, of successive laborers, in which case the supply will be measured by OF, the rate of wages by OD, and the sum of personal rents by GDA.

for exerting an absolutely greater amount of productive energy, or it may mean simply the possession of a kind of ability that is scarce, and because of its scarcity commands a high price in the market. The difference is of some importance. Where two men are engaged in entirely dissimilar occupations, it is practically impossible to determine which exerts the greater amount of productive energy or whose absolute productivity is greater. If we compare two bricklayers, and find that one can lay on the average three thousand, and the other only two thousand bricks in a day, it is quite safe to say that the absolute productivity of the former is the greater. But, if we compare a bricklayer with a bank cashier, we have not the data for a similar comparison. It is impossible to say with certainty that the work of the cashier is absolutely more productive than that of the bricklayer. The probabilities are that it is not. If the cashier gets better wages than the bricklayer, it is not due to any absolutely superior ability, but because the kind of ability possessed by the one is less abundant than that possessed by the other. If the jeweller gets better wages than the baker, it is probably for the same reason that an ounce of silver sells higher than an ounce of bread. This is not because the absolute utility of silver is greater, but because, owing to differences in the scarcity, its marginal utility is greater.

To sum up, we conclude that the marginal productivity of labor is the factor that is present in all cases in the determination of wages, that the marginal standard of living and painfulness of labor are the efficient causes for the limitation of the supply of labor in general, that the marginal cost of acquiring proficiency in the skilled occupations is the efficient cause for the limitation of the supply of specially skilled labor, and that there is an element of rent of personal ability as well as of land.

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THE ENGLISH RAILWAY RATE QUESTION.

IV.*

It remains to consider the effects of the legislation of 1888-91, and afterwards the transactions which followed upon the Order Confirmation Acts coming into force.

The general effect of the new legislation has undoubtedly been to intensify the control of Parliament over the railway system. Such a revision of maximum rates as might involve a reduction of them was always strenuously opposed by the railway companies and their advocates. It was alleged that such a policy would be at once unjust and impracticable. The policy has been carried out, although the justice of it is perhaps still open to question, and the practical working of the revised scale has already produced much friction between the traders and the Board of Trade on one side and the railway companies on the other.

In detail the new legislation effects a series of compromises, and offers a series of propitiations. The small trader is propitiated by the refusal to the large trader of the benefit of a reduced rate for train-loads; while even the reduced rate for the truck-load is not so low as the large trader would like. The trader in through traffic is propitiated by the cumulative scale; while the owners of wagons and of sidings are considered in the provisions for dissecting rates, and the powers which make it possible for a trader to perform nearly all the functions of a railway company for himself if he chooses. The trader in heavy goods, coal, iron, etc. (Class A), is, on the whole, the trader most highly benefited by the new regulations. He gets a substantial reduction in rates. On the other hand, the railway companies have obtained increased

* For the article of which this is the continuation, see the *Quarterly Journal of Economics* for April, p. 280.

powers of charge in the higher classes of goods; and they have obtained, moreover, statutory powers to charge terminals, which they had long demanded. There is no evidence so far to show that the agitation of the traders or the action of the legislature in subjecting railway companies to intensified control by the Board of Trade has had any influence in diminishing the attractiveness to the investing public of railway enterprise in England. The table on page 405 shows that the amount of capital proposed to be raised and the number of miles of railway projected have increased largely during the very period when the controversy was acutest.* It is fairly clear that the building of new railways and the investment of capital in them are determined rather by the conditions of industry than by legislative action affecting rates. The year 1889 was "a more than ordinarily prosperous year for the railway companies."† The years 1890 and 1891 were also good years. The increasing volume of trade accounts for the new enterprises; but there is no visible reason to believe that any of these were prevented from coming to maturity by the anticipation of diminished revenues following upon the adoption of the Board of Trade schedule. Since these schedules came into operation only on January 1, 1893, there is hardly yet room for other than provisional conclusions upon their effect. Their advent was nearly coincident with a falling off in trade, which has since almost steadily continued, with the result that traffic receipts are diminished from causes other than those connected with rate movements.

* Mr. Findley, of the London & North-western Railway, argued against reduction of maximum rates, on the ground that the revenue of the railway companies would be thereby "clipped," that the credit of the companies would suffer, and that they would have on this account to pay higher rates of interest upon loans. *Provisional Order Bills Report*, 1891, Part II., p. 1105, Query 10086.

† *General Report to the Board of Trade in regard to Share and Loan Capital, etc., of the Railway Companies of the United Kingdom*, for the year 1889 [C.-6157], p. 13.

NEW RAILWAY BILLS PROMOTED, 1887-90.*

	1887.	1888.	1889.	1890.
No. of bills promoted by new railway companies applying for powers . .	19	20	19	23
Length of new lines proposed by these companies in miles	142	226	331	376
Amount of new capital proposed to be raised by these companies	\$41,800,000	\$54,400,000	\$49,400,000	\$84,600,000
No. of bills promoted by existing railway companies applying for powers . .	62	83	73	91
Length of new lines proposed by these in miles .	84	220	233	399
Amount of new capital proposed to be raised by these companies	\$41,300,000	\$66,000,000	\$52,400,000	\$96,600,000
Total length of new lines proposed	226	446	564	775
Total amount of capital proposed to be raised . .	\$83,100,000	\$120,400,000	\$101,800,000	\$171,200,000
Capital proposed to be raised per mile of line . {	\$367,768 (£75,575)	\$248,100 (£55,480)	\$184,705 (£37,953)	\$221,532 (£45,533)

V.

During the winter of 1892-93, immediately after the Provisional Order Confirmation Bills were passed, friction again arose between the railways and the traders. This time the railways were the aggressors. They promptly raised their rates in many cases to the maximum, and at once brought about their ears the loudest expostulations of their aggrieved customers. The companies were clearly anxious to show that maximum rates were unworkable; and the traders were bitterly disappointed at the result of the long-considered legislation. Revision had been called "confiscation"; and the tables were turned upon the "confiscators." In consequence of the action of the

* See Report by the Board of Trade upon all the Railway, Canal, etc., Bills of Session, 1887; *Ibid.*, 1888; *Ibid.*, 1889; *Ibid.*, 1890.

railway companies and the loud grumbling of the traders, Sir Albert Rollit, a ship-owner and solicitor, gave notice in the House of Commons in the spring of 1893 of a motion for the appointment of a Committee of Inquiry.* This motion was withdrawn; but shortly afterwards the president of the Board of Trade (Mr. Mundella) moved the appointment of a Select Committee † to inquire into the mode in which the railway companies had exercised the powers conferred upon them in the acts confirming their Provisional Orders passed in 1891-92, and "to consider whether it is desirable to adopt any other means of settling the difficulties arising between the companies and the public with respect to the rates and conditions of charges for the conveyance of goods." ‡

This Committee met near the end of May, and continued to receive evidence until November, 1893.§

The chief points in their reports can alone be dealt with. The leading question was, Did the railway companies break faith with the public and with the Board of Trade, in raising at a stroke their actual rates to the maximum allowed by law? That the companies did raise their rates, or the greater part of them, there is no reason to doubt. They really substituted for their existing rate-books a rate-book which contained simply the new maximum rates. The possibility of some such *coup* was at least partially foreseen; and, in some cases at least, the answers of railway managers to queries made during the investigations of 1889-91 were open to the interpretation

* A bill to amend the Act of 1888 had been previously introduced by Mr. R. D. Burnie and others, but it was not proceeded with. Its terms were short and drastic. The companies were to be forbidden to increase rates above the actual rates in existence prior to the passing of the Acts of 1891-92, and were to be subjected to a penalty in case of their being convicted of overcharging. Bill 36, 1st of February, 1893.

† May 16, 1893. See *Hansard*.

‡ *Ibid*.

§ *First Report on Railway Rates and Charges*, 1893, No. 385; *Second Report on Railway Rates and Charges*, 1893, No. 462.

that no such *coup* was intended, or, even if intended, practicable. *

It was pointed out, *e.g.*, by Sir Henry Oakley † that the companies could "not hope to get any increase of rates by exercising any margin of power which" might be given to them, simply because such increase would damage the trade. "If we thought now that an increase would not damage the trade, we should make an addition at this moment." According to the Report of 1893, ‡ "the bulk of the evidence given on behalf of the railway companies was to the same effect." The Report adds that, in deference to the representations of the railway companies to the effect that, if the rates on certain classes of goods were reduced, the companies would be obliged to recoup themselves in some way, the Joint Committee raised the maximum rates, in order to reduce the expected loss to the companies. The conclusion of the Report is that,—

The effect of the statements of the railway managers before the Board of Trade Committee and the Joint Committee of the Houses was to lead these bodies and the traders to believe, that the companies could not recoup themselves for any losses resulting from a reduction of the maximum charges by a general raising of rates which were below the maxima. If there had been any general expectation of such action, it is most probable that the provisional orders would not have passed into law; for they would have been strongly opposed by the traders who had the benefit of the existing rates, and who would have objected to their being raised for the benefit of other traders whose rates were to be reduced.

On the other hand, it was undoubtedly expected by the Board of Trade and Parliament that the companies would find it possible to make some increases in exceptionally low rates, to an extent which would partially recover their losses in other directions.

* *E.g.*, Query 5426, p. 668, *Report of 1891*; and Query 13911, p. 1453, *Report of 1891*, etc. A full list of these references will be found in the Appendix to the *Report of 1893*, No. 385.

† Query 13868, *Report of 1891*, p. 1451.

‡ *Second Report*, No. 463, p. v.

The expediency of raising the actual rates to the maxima was anxiously discussed by the railway managers during 1892, and the decision to make the *coup* seems not to have been unanimous. They determined, however, to raise the rates in general to the maxima, on two grounds, partly in order to recoup their losses and partly because of "the difficulties of dealing with the new maxima." The railway managers complained that the time allowed between the passing of the Acts and their coming into force was too short,* and that the classification adopted by Parliament "was not detailed enough." The companies, however, appear to have intended to modify the rates to suit special cases as these arose.

While these complaints were probably not remotely connected with a desire to show that the Acts were unworkable, it is to be noted that they are complaints of details and have no ostensible bearing upon the fixation of maximum rates by Parliament, nor upon the right of Parliament to interfere where the railways suddenly advance their actual rates, even when these advanced rates come within the maxima.

The Committee observe, with some point, that they feel it "difficult to understand fully the explanations afforded by the railway companies, and still more difficult to justify what they do understand of them." The Committee also point out that there were two courses open to the railway companies: one was to issue a maximum rate-book along with an announcement that the rates were provisional, and the other to leave the actual rates as they were, excepting in cases where reduction was required by law, and afterwards to raise any exceptionally low rates by degrees. The adoption of the first course, without, however, any intimation of the provisional character of the

* Although some of the Acts were not passed until the summer of 1892, the London & North-western Railway Act was passed on August 5, 1891, while it did not come into force until January 1, 1893, a period of seventeen months.

rates, produced the result which might have been foreseen by the railway companies; namely, the rebellion of the traders. The Committee found that "such a course was most unsatisfactory, and that the companies were not justified in dislocating trade and alarming so many interests, and in compelling traders to enter into long negotiations with them for the revision of rates.* It was shown also that, as regards some of the railways, the gain by increased rates was far in excess of the loss by diminished ones.†

Such a policy as that adopted by the railway companies can only be judged by results. There can be no doubt that it failed, if not utterly, at least to a very large extent. The suddenness of the *coup* infuriated the customers of the railways. They withheld payment of their accounts, and the utmost friction was produced. The representations of the traders and of Parliament forced the railways to abandon the position they had taken up, and to return to the rates of 1892, with, however, an increase of 5 per cent. in those rates which were not affected by the reduction clauses, provision for special cases being made gradually. The manœuvre of the railways can thus hardly be said from a tactical point of view to have been well managed. Their action has impressed the public mind with the feeling that they cannot be trusted, and that they must be continually watched; and, more important still, it has brought up the serious question of the practicability of revising actual as well as maximum rates. Some provision for dealing with actual rates is hinted at, although none is specifically recommended in the Report of the Committee.

The most important recommendation of the Committee referred to the Railway Commission and its powers. It is recommended that the membership of the Commission should be subject to revision from time to time, that one of the members should be experienced in trade, and that

* Report, 1893, No. 462, p. viii.

† *Ibid.*, p. ix.

costs should not be awarded on either side unless the claim or defence has been frivolous or vexatious.*

VI.

The repeated revival of the railway rates question, and the chronic condition of inquiry in which for twenty years it has existed in almost every country, whatever may be the system of railway administration, suggest that there is some general cause for the pressure upon railway companies to reduce rates, and for their apparent inability to meet the demand to a sufficient extent. Without attempting to develop a theory of transportation, it may be suggested that the general cause, put briefly, is that, while improved transportation has contributed to the reduction of prices of goods, especially in the great market centres,† it has not similarly reduced its own price. In other words, while formerly the sale of 10 pounds of pig iron would realize enough to transport 100 pounds say 100 miles, it would now be necessary to sell 20 pounds of pig iron to transport the same quantity the same distance.‡ Transportation charges thus tend at present to form a progressively increasing proportion of the realized price. In the higher classes of goods the variation of proportion of transport cost to total cost is clearly of less importance than in the case of lower classes of goods. With these lower classes of goods, pig iron and coal, for instance, every reduction of the price, without a corresponding reduction of rate,§ means a serious increase in the ratio of transport cost to total price.

* Report of 1893, No. 462, p. xiii.

† Cf. Sax. Schönberg's *Handbuch der Pol. Oek.*, vol. i. pp. 498, 499.

‡ The figures are simply used by way of illustration.

§ This has been to some extent recognized in practice. In the north of England, where the wages sliding-scale is well known, a railway rates sliding-scale was in existence until recently (I am not aware whether or not it exists at the moment). By this sliding-scale, when pig iron falls below 45s. per ton, the rate is reduced by 1% for every 1s. per ton. Cf. *Report Commission on Depression of Trade*, p. 346, 1886, *Second Report*, Part I.

The conditions which the railways have contributed to produce have reacted upon the railways.

The fixation of maximum rates is a subsidiary question. The demand for this is due to the suspicion attaching to all monopolies and *quasi*-monopolies,—that there is an element in the price which is due to exploitation in the sinister sense. The stock list of the English railways does not, however, suggest that this element is important, or, indeed, that it exists at all. The railway rates problem might exist, even though there were no interest to be paid upon capital. If the railways were conducted on the principle of charging bare running expenses alone,* it is conceivable that in time the increased mobility of goods would result, under certain conditions, in prices so low that the transport cost would appear to be an intolerable tax. The increased mobility of goods, with all its economic and social, direct and indirect effects, must be paid for in some way.

A suggestion may be hazarded as to the reason why transport cost should remain relatively high, while prices of goods fall. The reason appears to me to be twofold: (1) The goods which the railway company buys and sells are not principally those in which prices have been diminishing. The consumption of raw material on a railway even in its construction is relatively small: the wage-bill in construction, in maintenance, and in running, is relatively large. I find that the wage-bill on one of the Scotch lines is as follows:—

<i>Percentage to Total Expenses.</i>		<i>Wages.</i>	<i>Materials, etc.</i>
15%	A. Maintenance of way	50%	50%
32%	B. Locomotive power	45%	55%
13%	C. Repairs and renewals	30%	70%
35%	D. Traffic expenses	75%	25%
5%	E. General charges	45%	55%
100%		54%	46%

* Or if the road were free, as the Erie Canal is free.

These figures are probably fairly typical. The cost of human service has probably, on the whole, risen in civilized countries during the past thirty years; and this explains in an obvious way how the cost of transport has been maintained. (2) But perhaps a more important reason than the first is that the law of diminishing returns has a special application to railways. In the mechanism of transportation the limit of possible work from a given installation of that mechanism is reached at an early stage, when compared with the extensive limits of possible work from the productive mechanism of staple products. In those industries whose mechanism is susceptible of rapid improvement, without rendering valueless a disproportionate amount of capital, the curve of production determined by the law of diminishing returns is checked by improvements at frequent points. But transportation is not an industry of that sort. The mechanism of it, in England especially, is among the most permanent orders of mechanism. Even minor improvements are retarded by the costly and substantial character of the railway structures. The Great Western Railway was almost obliged to retain a gauge of line different from all the other railways until 1892, because of the enormous cost the alteration involved. Wagons have not changed in shape or character * since George Stephenson's time, because the curves, the gradients, the turn-tables, the coal shoots, and other appliances would have to be altered to suit a new type of wagon.†

The curve of cost per train mile steadily descends with a frequency of from one to twenty trains per day over the

* *Proceedings of Institution of Mechanical Engineers*, 1890, p. 475.

† *Ibid.*, 1884, p. 441. There are, of course, other reasons why the English railways do not adopt the American type of bogie truck. Among the chief of these is the hilly nature of the mineral fields, so far as mineral traffic is concerned, and the smallness of the lots of goods customarily transported at a time, so far as general merchandise is concerned.

same lines.* The limit is then reached, and with a higher frequency the curve ascends.† Alike as regards the economical limit of speed,‡ of gradient,§ of curvature of line,|| of size and weight of wagons,¶ of number and weight of trains,** the railway companies are "hampered" by the law of diminishing returns,—a piece of legislation which has not been procured by agitating traders, nor concocted by a Joint Committee, but which has all, and more than all, the force of a Provisional Order. Such limitations as have been described in the working of rolling stock, as well as limitations in the efficiency of stations and of administration, have so great a cumulative effect upon the railway system that the cost to it of transporting goods does not diminish quite so fast as the cost of production of those goods.†† If the cost of production be taken as the inferior limit below which the market price of an article in constant supply does not under normal conditions permanently fall, then we may say that the market price of transport is not likely to fall in so great a proportion as the fall which has taken place in the market prices of certain goods.

What must strike any one in studying the English railway system is the great complexity alike of conditions and of interests,—a complexity inseparable from an ex-

* See paper by Lieutenant-Colonel Dowden. *Professional Papers on Indian Engineering*, Series III., vol. iii., No. 10, quoted in *Proceedings of Institution of Civil Engineers* (England), vol. lxxxii. p. 403.

† For American experience to the same effect, see Wellington, *The Economic Theory of Railway Location*, p. 569.

‡ See Price Williams, *Institution of Mechanical Engineers* (England), 1873, p. 202; Wellington, *op. cit.*, p. 460.

§ *Ibid.*, p. 346.

|| *Ibid.*, p. 323.

¶ Discussion, *Institution of Mechanical Engineers* (England), 1884, p. 431.

** Wellington, *op. cit.*, p. 571.

†† This principle is probably not confined to railways. The cost of bullock cartage in India is 8d. per ton per mile, which is perhaps a much higher rate than prevailed thirty years ago.

tensive commerce conducted within an area relatively small, but exceedingly diversified in physical and industrial characteristics. A perfectly uniform and simple system, even if it were practicable, would probably be unjust; and thus the only way out of the *impasse* in which the railway problem seems likely to be landed is a more and more strenuous and minute study of the actual conditions under which the traffic is or might be carried on. The railway managers and the traders alike will have to abandon the crass attitude which some of them adopt.* There are probably many important economies in administration which might be effected; and thus a diminution in rates, with probable, although not certain, increase of traffic, might be made without reduction of dividends.†

The railway system has grown so fast that there has been no time in England for thinking about the education of railway managers. Much attention is given to this matter in Germany; and, unless the English railways are to continue to be administered by rule of thumb, without knowledge of their own conditions, much less of the conditions of the railways of other countries, some method of education will have to be devised by the English railway companies in their own interests. Institutes of bankers, of chartered accountants, etc., do a good deal for professional education; but there is absolutely no provision in England for anything of the kind in connection with railways.

As regards the general tenor of English railway policy, it may be said in general terms that the dozen great lines which may be regarded for practical purposes as the English railway system form together a *quasi*-public insti-

* As, for example, on the side of the railways, the objection to giving adequate statistics, on the ground that "it is better for the public not to know too much"; and, on the side of the traders, that the interests of individual classes of traders alone ought to be considered.

† Cf. diagram in *Atti della Commissione d' Inchiesta sull' Esercizio delle Ferrovie Italiane*, 1884, Parte II., vol. ii. p. 367.

tution, which might be put in the same category as the Bank of England. England could no more allow the London & North-western Railway Company to shut up its line and go into liquidation than it could allow the Bank of England to close its doors and go into the bankruptcy court. Both are creatures of statute, with strict limitation of the element of private initiative preserved to them by the nature of their charters. Neither can make any departure out of a well-beaten track without the sanction of Parliament. In the case of the railway companies it is not necessary to go back to the "musty charters of 1840" (although the statute of limitations does not apply to acts of Parliament); every important limitation has been repeated and emphasized in every general railway act from then till now.

We may be quite ready to admit the dangers of State control, the inconveniences of it, the expensiveness of it; but it is plain that, however the English railways have kicked and protested, they have been bound hand and foot by the statutes, and they have never been strong enough to resist Parliament, backed up, as it has been in its relations with the railways, by public opinion. Never free, the railways have, for good or evil, been more and more definitely tied to the State.

The next few years will reveal how far private enterprise will bear the strain of intimate control in detail by a State department.

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THE CIVIL WAR INCOME TAX.

I.

THE Civil War gave birth to many innovations in our financial legislation. Some outlived the war period, and are still thriving in these days of peace: others have disappeared,—it may be forever, but we must not speak too confidently. There were measures which the boldest innovator would hardly have dared propose in time of peace; but under the stress of war they were enacted, sometimes with little opposition and little discussion. And now, after thirty years of peace, there is hardly a feature of this war legislation, from a national banking system to an inflated currency, which will not find earnest support and advocacy among some class of people. The income tax was the first of these innovations to be adopted, and was among the first to disappear. Will it also be the first to be restored? This at the present time is a question of living interest.

The tax was introduced in the act of August 5, 1861. There had been no precedent for such a form of taxation in our history even in time of war. An income tax had, indeed, been suggested during the War of 1812 (Special Report of Secretary Dallas, January 17, 1815), but not seriously considered. Such taxes, however, were familiar enough in England and other European countries; and it is not strange that Congress should have thought of taxing incomes at a period when its policy was to tax everything taxable. It is, however, a little remarkable that the tax should have been introduced so early as 1861; for the act of that year was, on the whole, a very moderate and conservative revenue measure, enacted before the country had any idea how serious and protracted the struggle and how heavy the financial burdens of the war would prove to be. A brief study of the legislative history of the measure will enable us to understand how it came to include such a novelty as the income tax.

Congress was convened in extraordinary session on July 4, 1861. Secretary Chase, in his report on the finances, outlined

the financial legislation which he thought the exigencies of the situation demanded; but he made no reference to an income tax. He expressed the opinion that \$240,000,000 should be raised by loans and \$80,000,000 by means of taxation. The existing tariff, he thought, would yield about \$30,000,000, leaving \$50,000,000 to be secured by new taxes or other revenue. \$27,000,000 could be obtained by increasing the duty on sugar, imposing duties on tea and coffee, and making some other changes in the tariff. \$3,000,000 might be expected from sales of public lands. The remaining \$20,000,000 he proposed to raise "by direct taxes or from internal duties or excises or both." He even intimated a hope that this taxation would not have to be imposed after the current year.

The policy thus outlined in his report relied principally on loans as a means of raising money, and proposed a very moderate, cautious, and, as the event showed, wholly inadequate resort to taxation. It is not surprising, then, that he did not suggest anything so radical as an income tax; for, when he spoke of "direct taxes," he had in mind those forms of taxation which this term, as used in the Constitution, would include,—namely, capitation taxes, taxes on real estate, and "probably," he adds, "general taxes on personal property." As to the income tax, the Supreme Court has since then decided that it is not a direct tax in the meaning of the Constitution.*

The House Committee of Ways and Means followed out the recommendations of the Secretary. They prepared two bills, one of which dealt with the proposed tariff changes, imposing duties on tea, coffee, and sugar. The other was the internal revenue measure. It imposed license taxes and taxes on whiskey, beer, porter, carriages, promissory notes, and bank bills. It also contained a provision for a direct tax of \$30,000,000. This, as the Constitution required, was to be apportioned among the States on the basis of population. The quotas of the loyal States, in which alone the tax could be

* *Springer v. United States*, 102 U. S. 508. The decision was that direct taxes within the meaning of the Constitution are only capitation taxes as expressed in that instrument and taxes on real estate. See article on "The Direct Tax of 1861" in the *Quarterly Journal of Economics*, July, 1889.

made immediately operative, amounted to \$20,000,000. This was a form of taxation of which the country had already had experience. This bill, indeed, was said to be an exact copy of one framed by Albert Gallatin.

When, however, the bill came before the House, it was not received with much favor. One objection urged against it was that it created an army of office-holders for the collection of these taxes; and an effort was made to have the taxes collected by State machinery. But the Committee of Ways and Means reported that they could devise no constitutional means for doing this. To many, however, the most objectionable feature of the bill was the direct tax itself. This was opposed, first, because it did not rest on personal property as well as on real estate. It was true that the States were at liberty to assume their respective quotas; and in that case the tax, being assessed and collected under State laws, would probably be imposed on personal property as well as real estate. But Congress could not take it for granted that the States would all assume the tax; and, where they did not, it was to be collected by federal machinery and assessed on real estate.

A second and more serious objection to the tax was its apportionment among the States on the basis of population, as required by the Constitution. The distribution of population was far from corresponding to that of wealth. The disparity was much greater in 1861 than it had been in 1816, when the last direct tax had been assessed. There had been a concentration of wealth and capital in the Eastern States, a rapid growth of population in the Western. Hence the representatives from the West were especially active in opposing the direct tax.*

But, if the direct tax was to be rejected, some substitute for it must be found; and many members began to express a preference for an income tax. The principal argument which the Committee of Ways and Means urged against making any such change was the need of prompt action. But this did not

*In the course of the debate statistics were presented to show the inequalities in the assessment which would result from this method of apportionment. The quota of Illinois, for instance, would, it was urged, require a tax of nearly 6 per cent. on the valuation of real estate, while in Massachusetts the rate would be only 2.6 per cent.

seem to the House a sufficient reason for accepting the bill as it stood. "There is no stress of weather," said Mr. Colfax, "which can induce me to vote for the bill as it now stands. I cannot go home, and tell my constituents that I voted for a bill that would allow a man, a millionaire, who has put his entire property into stock, to be exempt from taxation, while a farmer who lives by his side must pay a tax." So the committee, acting on a vote of instruction passed by the House, revised the bill so as to reduce the direct tax from \$30,000,000 to \$20,000,000, and impose an income tax of 3 per cent. on all income over \$600. The bill in this form was accepted by the House, and passed at once.*

In the mean time an income tax had also been proposed in the Senate. There the question came up in connection with the tariff bill, which had passed the House, July 18. In the Senate the Committee of Finance, to whom this bill had been referred, reported it with a substitute which aimed to make the tariff duties more productive of revenue. Mr. Simmons, chairman of the committee, thought that, in addition to this revenue from the tariff, \$20,000,000 should be raised by a tax on incomes. He therefore offered an amendment, which the Senate readily accepted, imposing a tax of 5 per cent. on income over \$1,000. There was but little discussion; but it is evident from what was said that the Senate hoped by this action to be able to dispense with the direct tax which had been proposed in the House, the majority of senators preferring an income tax to a property tax which must be apportioned on the basis of population.† The amendment was adopted on the same day that the House passed the internal revenue bill containing the income tax section.

The form which these measures finally assumed in the act of August 5 was, as usual, determined by the Committee of Conference appointed by the two branches of Congress. The direct tax of \$20,000,000 proposed by the House was retained; and, as for the income tax, the 3 per cent. rate was adopted with an exemption of \$800.

* July 29, 1861, *Congressional Globe*, p. 331.

† Remarks of Mr. Fessenden, *Congressional Globe*, p. 255; and of Mr. Simmons, p. 313.

Thus it appears to have been opposition to the direct tax which led to the adoption of an income tax at this particular time. This is not saying that it might not have been adopted later, even if the Constitution had not required the apportionment of direct taxes on the basis of population. As it was, however, this requirement proved to be a serious objection to the taxes on real estate or other property; and the income tax was about the only other way of levying directly a tax on the wealth or financial resources of each citizen.

The act of 1861 may be said to have committed the country to the policy of taxing incomes; but no income tax was in fact assessed under that law. According to the terms of the act the tax was to be assessed on the income of 1861, and was payable on or before the 30th of June, 1862. But this legislation was regarded as essentially provisional. Congress was to meet again in December, seven months before any revenue from the income tax could be received. It was to be expected that at this next session the act would be reconsidered, and perhaps undergo important modifications; and the Secretary of the Treasury, therefore, took no steps for the enforcement of the income tax, but awaited the further action of Congress. In his annual report he commended the "prudent forecast which induced Congress to postpone to another year the necessity of taking steps for the practical enforcement of the law," thus affording "happily the opportunity of revision and modification." He doubted the advisability of enforcing the income tax at all.

The Secretary is acquainted with no statistics which afford the means of a satisfactory estimate of the amount likely to be realized from the income tax. Considering, however, how large a proportion of incomes after the deductions sanctioned by law will fall within the exemption limit of \$800 a year, and considering also what numerous questions will certainly perplex its assessment and collection, he respectfully submits whether the probable revenue affords a sufficient reason for putting in operation, at great cost, the machinery of the act, with a view, should the States assume the direct tax, to the collection of the income tax alone.

The Secretary favored an increase of the direct tax to the sum originally proposed,—namely, \$30,000,000,—and proposed

to raise \$50,000,000 by internal taxation and without resorting to an income tax. He was aware, he said, that the sum was large; but he felt that he "must not shrink from a plain statement of the actual necessities of the situation."

This report was presented on the 9th of December, 1861. On March 12, 1862, the Committee of Ways and Means reported an internal revenue bill which, it was estimated, would produce \$164,000,000 annually, or more than three times the amount which the Secretary had apologetically asked for. The country was beginning to realize what the war meant. The bill imposed a tax of 3 per cent. on incomes above \$600, from which the committee expected to obtain \$5,000,000 of the above revenue. Mr. Morrill, in reporting the measure, said:—

The income duty is one perhaps of the least defensible that, on the whole, the Committee of Ways and Means concluded to retain or report. The objection to it is that nearly all persons will have been already once taxed upon the sources from which this income is derived. There are few persons in the country who have any fixed incomes for a term of years. The income tax is an inquisitorial one at best; but upon looking at the considerable class of State officers, and the many thousands who are employed on a fixed salary, many of whom would not contribute a penny unless called upon through this tax, it has been thought best not to wholly abandon it. Ought not men, too, with large incomes to pay more in proportion to what they have than those with limited means who live by the work of their hands or that of their families?*

But, if Mr. Morrill anticipated any considerable opposition to the tax, he was happily disappointed. No strong objection seems to have been made to it in any quarter. Congress had made up its mind that the proposed revenue must be raised. The income tax was but one item, and by no means the most important one, among the large number which made up this extensive and complicated revenue measure. If there were members who, like Mr. Morrill, regarded it as the least defensible of the taxes proposed, no one seemed to think it worth while to move to strike it out or was ready to suggest anything else in its place. In fact, notwithstanding the number of times the income tax was subsequently re-enacted or

* *Congressional Globe*, 39th Congress, 2d Session, p. 1196.

amended, the main question whether there should be such a tax at all was not seriously considered again until 1870. Up to that year the country seemed perfectly willing to accept this form of taxation as a part of the burden necessitated by the war.

II.

Until 1870, then, the questions discussed were mainly those of detail; and prominent among them was the question of the rate to be levied. The bill of March, 1862, retained the uniform 3 per cent. rate which had been adopted in the act of 1861. In the House no change was proposed. The higher rates of the act of 1862 originated in the Senate. There Mr. Fessenden, chairman of the Committee of Finance, moved an amendment retaining the 3 per cent. rate for incomes not over \$10,000, and making the rate 5 per cent. if the income exceeded \$10,000, and $7\frac{1}{2}$ per cent. if it exceeded \$50,000. These rates were to be assessed on the excess of income over \$600. Mr. Chandler, of Michigan, made some objections to the proposed change; but no one supported him, and the amendment was adopted without much debate.

The Senate had voted to strike out the direct tax which was a feature of the House bill, and it is not improbable that the above amendment was adopted with a view to supplying the revenue which the direct tax would have yielded. The House was strongly in favor of the latter tax. This disagreement between the two branches of Congress, which threatened to prove disastrous to the bill, was finally settled in the Committee of Conference. The direct tax was not struck out, but its assessment was suspended for two years; and this suspension proved to be final, for two years later the tax was repealed. It had been driven from the field by its rival, the income tax. As for the progressive features introduced in the income tax by the Senate, they probably do not indicate any disposition to favor the principle of progression for its own sake, but resulted almost inevitably from increasing the rates. To impose a tax of $7\frac{1}{2}$ per cent. on all income above \$600 would probably have been regarded as an excessive and unjust

burden on the smaller incomes. Either the limit of exemption must be raised or lower rates must be adopted at first, and the higher rate applied only after the income mounted to a higher figure.

The Committee of Conference modified the Senate amendment by striking out the 7½ per cent. rate for income over \$50,000. It retained the 5 per cent. rate for income above \$10,000, and the 3 per cent. rate below that point. Under this act, which was signed July 1, 1862, the income tax first went into operation. The income tax sections of the act of 1861 had never been enforced, and were now repealed.

The next revision of the income tax took place in 1864, forming a part of the act of June 30. This act was the most important revenue measure of the war, and was expected to produce a revenue of about \$250,000,000. In its main features, however, it followed the act of 1862, but with modifications in detail and a general increase in rates. As for the income tax, the bill as introduced by the Committee of Ways and Means did away with the differential rates, and proposed to assess a tax of 5 per cent. on all incomes, with an exemption, as before, of \$600. But the House voted to make the rate 7½ per cent. on income over \$10,000, and 10 per cent. on that over \$25,000. There was a good deal of discussion before the vote was taken. Many members were opposed to the progressive principle. They condemned it as being virtually "a confiscation of property because one man happens to have a little more than another,"* as punishing men because they are rich, and the like.† The defenders of progression claimed that it was justifiable on the same principle as a tax on luxuries, that it was simply a means of making the rich contribute their due proportion to the expenses of the war, offsetting the disproportionate share of indirect taxes paid by the lower and middle classes.

The question was again discussed in the Senate, where the Committee of Finance proposed to strike out the 10 per cent. rate on income over \$25,000. Mr. Sumner thought this would

* Remarks of Mr. Morrill, *Congressional Globe*, p. 1376.

† Remarks of Mr. Stevens, *Ibid.*

be a departure from correct principles, and cited Adam Smith and Say in support of progressive taxation. The Senate at first accepted the proposed change. Later, however, it voted to restore the 10 per cent. rate, apply it to income over \$10,000, and at the same time apply the 7½ per cent. rate to income between \$5,000 and \$10,000. One of the senators wanted to know on what principle a larger tax was imposed on an increased income. Mr. Grimes, of Iowa, replied: "As to the practice, we have already established that by a very decisive vote. As to the principle on which it is based, I will refer the senator from Missouri [Mr. Henderson] to the senator from Massachusetts [Mr. Sumner] and the array of authorities which he read to us the other day from Say and other political economists, showing us that this was the principle on which all income taxes ought to be assessed; and it is not for me to controvert the authorities which the senator from Massachusetts exhibited here to so great an extent, and it seems to me that they have made such an impression on the minds of the senators that we have reversed the decision made at that time, and decided exactly the contrary to-day."*

The tone of these remarks would lead us to question the senator's sincerity in suggesting this explanation of the Senate's reversal of its previous decision. It is to be noted that, in the interval between the first vote on this question and the second, Mr. Grimes had moved to postpone indefinitely the direct tax, which, according to the House bill, was to be assessed in 1865; and this motion was carried. The list of senators who voted in the affirmative corresponds pretty closely to the list of those who afterwards voted for the higher rates on incomes.† Apparently, a group of senators, mainly from the Western States, made up their minds that the

* *Congressional Globe*, 1st Session, 38th Congress, p. 2766.

† Of the twenty-one who had voted against the direct tax, only four—Henderson, of Missouri, Howe, of Wisconsin, Powell, of Kentucky, and Richardson, of Illinois—voted against the higher income-tax rates. Of the sixteen who had voted in favor of the direct tax, only five—Conness, of California, Harris and Morgan, of New York, Sumner, of Massachusetts, and Ten Eyck, of New Jersey—voted in favor of the higher rates. Of these five, all but one had voted against the higher rates on the first vote taken before the vote which struck out the direct tax.

direct tax must go; and, that tax being disposed of, the Senate, in order to make good the revenue, consented to increase the income tax.

When the bill assumed its final form in the Committee of Conference, the income tax was changed so as to make the 10 per cent. rate begin at \$10,000,—a lower point than either House or Senate had selected. This seems a singular step to be taken by a committee which is expected to compromise the differences between the two branches of Congress; but it excited no protest.

Before the income tax sections of the act of 1864 went into operation, they were amended by the act of March 3, 1865. Under this act the rates reached the highest point in the history of the tax. The $7\frac{1}{2}$ per cent. rate was abolished, and the 10 per cent. rate was applied to all income over \$5,000, the rate below that point being, as before, 5 per cent. This change aroused very little debate in either branch of Congress.

By 1866 the finances of the government were in a condition to allow some reduction of taxation; and a bill was introduced which was expected to secure relief to the extent of \$75,000,000. As regards the income tax, it was proposed to return to a uniform rate, 5 per cent., and raise the exemption to \$1,000. "In a republican form of government," said Mr. Morrill, in introducing the bill, "the true theory is to make no distinctions as to persons in the rate of taxation." But the House, after some debate, voted to continue the 10 per cent. rate on income over \$5,000. The Senate, however, favored postponing action on the income tax until the next session, which would open before the proposed changes could go into operation. The House agreed to this, and the matter went over. In the next session the House voted against a 10 per cent. rate by a majority as strong as that which had favored it in the previous session. The Senate made no effort to continue the higher rate; and thus the act of March 2, 1867, introduced a uniform 5 per cent. rate with an exemption of \$1,000. No further changes were made in the income tax until 1870.

In the early history of the tax there were some other dis-

tinctions in the rates besides those based on the amount of the income. One of these was in regard to income consisting of interest on United States securities. The policy at first was to tax it at a lower rate. The object was to encourage loans to the government. The Senate introduced this feature in the act of 1861, under which interest on such securities was to be taxed $1\frac{1}{2}$ instead of 3 per cent. The act of 1862 observed the same distinction, taxing interest on bonds at $2\frac{1}{2}$ per cent., while the rates for other forms of income were 3 and 5 per cent. The act of 1864 did away with this distinction; and thereafter the interest on government securities was subject to the same tax as other forms of income.

Another distinction observed in this earlier period was in regard to the income from property in the United States owned by citizens residing abroad. This was taxed at a higher rate with the idea, apparently, that these citizens by spending their incomes in a foreign country were evading the taxes on consumption which our laws imposed. Under the act of 1861 such income was to be taxed 5 per cent. The act of 1862 retained the five per cent. rate, which, however, was a discrimination against this class of citizens only when their incomes were under \$10,000, since citizens at home were likewise taxed 5 per cent. on income above that amount. This distinction was also discontinued under the act of 1864.

In addition to the regular income tax a special tax was assessed on the income of 1863 by a joint resolution of Congress passed July 4, 1864, in order to provide for the bounties required under the recent enrolment act. The rate was 5 per cent. on all income over \$600. This made the total tax assessed in the end, on the income of 1863, 8 per cent. on income between \$600 and \$10,000 and 10 per cent. on income over \$10,000. The special tax was assessed Oct. 1, 1864.

III.

The legislation we have been considering made express provision for the taxation of certain classes of dividends and interest payments. The act of 1862 imposed a tax of 3 per cent. on the interest or dividends paid by railroad corpora-

tions, and a like tax on the dividends of all banks, trust companies, savings institutions, or insurance companies, and on all sums added to their surplus or contingent funds. This tax was to be deducted from the interest or dividends, and paid over to the tax collector by the officers of the company or corporation. Dividends and interest thus assessed were not subject to further taxation as income. This tax, therefore, was essentially a part of the income tax, and was so regarded, being in effect an assessment on the income of the stockholder or bondholder, who received his interest or dividends diminished by the amount of the tax. Theoretically, it was the same thing in the end as if the tax had been assessed directly on his income and collected from him; but, in practice, it was much easier and simpler to collect from the corporations than from the individual stockholders and bondholders, and therefore Congress availed itself of the well-recognized advantages of taxing income at its source.* At the same time certain inconsistencies resulted from adopting this course.

For, in the first place, the personal income tax, as we have seen, imposed a higher rate on the larger incomes; but this distinction could not well be observed in taxing dividends and interest. Yet there was a certain degree of injustice in not observing it. Under the act of 1862 the result was that, while an income of over \$10,000 derived, say, from some private business, from professional fees, or a salary, was taxed 5 per cent., an income of the same amount, consisting of interest and dividends received from railroads or banks, was taxed only 3 per cent. By the act of 1864 the tax on interest and dividends was raised to 5 per cent., thus corresponding again to the lowest rate assessed on personal incomes; but, as 10 per

* We do not mean to imply, however, that this tax was in the first instance resorted to with the idea of securing a more efficient assessment of this form of income. On the contrary, the indications are that at first this tax was imposed simply because the interest and dividends of railroads and banks were regarded as convenient objects of taxation; but, to avoid double taxation, it was found necessary to exempt them from the personal income tax. Later these two taxes came to be regarded as two subdivisions of a general income tax. Thus in the act of 1863 the provisions as to interest and dividends are given under a separate title, and precede those in regard to personal income; but in the act of 1864 the order is reversed, and all these sections form one group under the general title of "Income."

cent. was now assessed on personal income in excess of \$5,000, the disparity between the two methods of taxation was as marked as before. It did not cease until under the act of 1867 a uniform rate was adopted for all forms of income of whatever amount.

It was also considered impracticable, as regards the taxation of interest and dividends, to apply the principle of exempting a certain amount. The tax-payer whose income consisted entirely of interest and dividends was thereby deprived of a form of relief which other tax-payers enjoyed. This inconsistency did not escape the notice of Congress. There were members who were fond of denouncing a system which operated injuriously upon "a class of persons composed almost exclusively of widows and orphans"; and propositions were made to have the tax refunded to those receiving the interest and dividends, if their total income did not exceed the amount exempted from the personal income tax. But such proposals, although admitted to be just in principle, were rejected as impracticable.*

The method of taxing at the source was also applied to the salaries paid by the government,—that is, the tax was simply deducted from salaries as they were paid; and, as in the case of interest and dividends, the rate was uniform, corresponding to the lowest rate on other forms of income. Such salaries, therefore, were taxed at 3 per cent. until the act of 1864 went in force, and after that at 5 per cent. It is not apparent why there should have been any difficulty in introducing gradations in the rates in this case. But it was practically a matter of no great importance, as very few salaries paid by the government in those days exceeded \$5,000. A rather tardy attempt was made to remove this defect in the law in 1866, when, on motion of Mr. Garfield, an amendment was passed, making the rate 10 per cent. when the salary exceeded \$5,000; but before the time came for the enforcement of this provision, the act of 1867 was passed, which, as already stated, introduced the uniform 5 per cent. rate for all forms of income.

* See *Congressional Globe*, 1st Session, 39th Congress, p. 2788; 2d Session, 41st Congress, p. 5163.

IV.

In the administration of an income tax embarrassing questions sometimes present themselves in regard to the correct conception or definition of income. By the act of 1861 the income to be taxed was defined, in general terms, as that "derived from any kind of property, or from any profession, trade, employment, or vocation carried on in the United States or elsewhere, or from any other source whatever." This definition seems pretty inclusive, but would probably not have been of much practical assistance in the administration of the tax. But the act was not intended to be very explicit, being framed with the idea of leaving matters of detail to be settled by rulings of the Treasury Department.*

The act of 1862 amplified this definition somewhat without greatly improving it. The tax was to be levied upon "the annual gains, profits, or income of every person residing in the United States, whether derived from any kind of property, rents, interest, dividends, salaries, or from any profession, trade, employment, or vocation carried on in the United States or elsewhere, or from any other source whatever except as hereinafter mentioned."† The last words evidently refer to certain deductions which the act permitted. Thus we find that "all other national, state, and local taxes lawfully assessed upon the property, or other sources of income," were to be deducted; and, also, all salaries and payments from the United States, and those dividends and interest payments which, as we have seen, were taxed by a distinct method. Of course, these last deductions were allowed simply to guard against double taxation; and this was apparently the object of the provision — found only in this act — that "the income derived from advertisements, or from any article manufactured upon which specific, stamp, or *ad valorem* duties shall have been directly assessed or paid, shall be deducted."‡

*"This bill provides that all the details, the mode of assessing the tax, what shall be assessed and what shall be deducted, shall be prescribed by the Secretary of the Treasury." Speech of Mr. Simmons, *Congressional Globe*, 1st Session, 37th Congress, p. 315.

† Act of July 1, 1862, section 90.

‡ The clause would seem to cover pretty much all income derived from manufacturing; for the articles manufactured and not taxed in those days were few

The legislation of 1864 and subsequent years was more explicit as to what should be included and what deducted in estimating taxable income. We find that the income was to include the following items:—

1. "Interest received or accrued upon all notes, bonds, mortgages, or other forms of indebtedness bearing interest, whether paid or not, if good and collectible, less the interest which has become due [from the tax-payer] during the year."*

2. "Profits realized from sales of real estate purchased within the year or within two years previous to the year for which the income is estimated."† There is some difficulty in deciding how to deal with these profits on real estate transactions. Evidently, they are a form of income; but should they always be included in the income of the year in which the real estate is sold? Under the act of 1862, which was silent on this point, the Commissioner of Internal Revenue ruled that, whenever a man sold an estate for more than he paid for it, the difference must be included in the income for the year in which the sale took place, no matter how long the estate had been in his possession. The act of 1864 provided that such profits should be included only when the real estate had been purchased within the year for which the income was estimated; but in the act of 1867, from which we have quoted, the rule was extended so as to cover purchases within the two years previous. The limit selected seems to be wholly arbitrary, and perhaps it could not well be otherwise. But why should the profits from the sale of an estate which has been held three years and a day be exempt from the tax, while, if the estate had been sold two days sooner, they would have been taxable? This inconsistency in the law did not escape the notice of those who in 1870 were urging every possible argument against the income tax.‡ According to the act of

and far between. If the intention was to avoid double taxation, the assumption must have been that a tax on manufactures rested on producers rather than consumers. This provision, however, never had to be enforced; for it was omitted in the amendatory act of March 3, 1863. The provision in reference to advertisements, however, remained law until the act of 1864 was passed.

* Act of March 2, 1867, section 13. In substance, the same provision was contained in the act of 1864, section 117.

† Act of 1867, section 13.

‡ *Congressional Globe*, 2d session, 41st Congress, p. 4717.

1864 the taxable income was also to include "all income or gains derived from the purchase and sale of stocks or other property, real or personal," to which the act of 1865 added the words "or live stock"; but this provision was not retained in the act of 1867.

3. The income was to include "the amount of sales of live stock, sugar, wool, butter, cheese, pork, beef, mutton, or other meats, hay and grain, fruits, vegetables, or other productions, being the growth or produce of the estate of [the tax-payer], but not including any portion thereof consumed directly by the family."* It is not clear why the amount of these products consumed by the family should have been exempted. There seems to be no better reason for it, in principle, than there would be for allowing the receiver of a salary to deduct the amount paid for his board.

As regards this method of estimating agricultural income, the criticism of the Commissioner of Internal Revenue, Mr. J. J. Lewis, is of interest: "The best test of the yearly income from real estate is its rental value. A rule requiring such income to be assessed on that value would be conveniently practicable, and would obviate the necessity of the vexatious inquisition now required in ascertaining the comparative value of live stock at different periods and the amount of butter, beef, cheese, etc., sold or on hand. Such estimates must needs be very unequal, and the returns incomplete."†

4. The income was to include "the share of any person of the gains or profits, whether divided or not, of all companies or partnerships, but not including the amount received from any corporations whose officers, as authorized by law, withhold and pay as taxes a per centum of the dividends made, and of interest or coupons paid by such corporations."‡

*The language quoted is that of the act of 1870; but substantially the same provision was introduced in the act of 1864. It underwent verbal changes in every subsequent act until it finally took the form given above. Originally, the enumeration even included "the increased value of live stock, whether sold or on hand," so that not even the year's growth of a calf was to be ignored in estimating the farmer's income.

† *Internal Revenue Reports*, 1864, House Executive Documents, 1864-65, vol. vii.

‡ Act of 1870, section 7. But essentially the same provision is found in all previous acts as far back as 1864.

5. Finally, the income was to include "all other gains, profits, and income drawn from any source whatever, except the rental value of the homestead."* This brings us to the deductions and exemptions provided for in these acts.

First there was the exemption of a minimum, which is a feature of nearly all income tax legislation, for reasons too well known to be repeated here. Under the acts of 1862, 1864, and 1865, the amount exempted was \$600, which after the inflation of the currency represented but a trifling income. In 1867 the amount was raised to \$1,000, and in 1870 to \$2,000. The tax was assessed on the amount by which any income exceeded the limit of exemption, and only one such deduction could be made from the aggregate income of all the members of any family consisting of parents and minor children or of husband and wife.

The amount actually paid for the rent of the dwelling-house or estate on which the tax-payer resides was also to be deducted. This provision first appeared in the amendatory act of March 3, 1863. It is not clear why a man should be allowed to deduct the amount paid for the rent of his dwelling any more than the amount paid for clothing. The rule was introduced on the assumption that the term "income" did not include the rental value of a house occupied by the owner,—a point on which the law, however, was silent at that time. The amendment exempting the rent paid for a dwelling was accordingly proposed for the avowed purpose of placing the man who hired a dwelling on the same footing with the man who owned one. The latter, it was said, "does not pay any rent, nor does he account for the rent of his house in his income; and the person who hires and occupies a house should be on the same footing." That seemed reasonable, and the amendment was accordingly adopted. But these two men might just as well have been put on the same footing by requiring the one who owned his dwelling to include its rental value in his income, and not allowing the one who hired a dwelling to deduct the rent paid for it. Later, under the act of 1864, express provision was made for the case of a man

* Act of 1867, section 13.

owning his dwelling, by explicitly excluding its rental value from his income. This time it may fairly have been thought necessary to put the man who owned his dwelling on the same footing with the man who hired one. The act accordingly provided that "the amount paid by any person for the rent of the homestead used or occupied by himself or his family, and the rental value of any homestead used or occupied by any person or by his family, in his own right or in the right of his wife, shall not be included and assessed as a part of his income."* This clause was an amendment introduced by the Senate Committee of Finance. The bill as it came from the House had exempted \$200 of rental value, and allowed a deduction of \$200 for rent. Mr. Fessenden, chairman of the Senate Committee, said that the House proposal could not be carried out "without making a very odious discrimination between town and country. . . . It would impose a burden upon certain men who happened to live in the city from which men living in the country where rents are low, comparatively nothing, would be exempt." A similar proposal was made by the House in 1870, but was again rejected by the Senate.

The policy which the House attempted to introduce was advocated by Commissioner Lewis in his annual report for 1864: "I am unable to see why the man who consumes his income should not be taxed for it as well as the man who saves it; nor why the one who lives in his own house should not be taxed on its rental value as much as if he let it to another, and put the rent in his own purse. If it be deemed right to allow the occupant of his own homestead such a portion of its rental value as would suffice to pay the rent of a moderate dwelling, the excess of the annual value of such homestead above the sum might with justice be taxed. An allowance of three or four hundred dollars might not be unreasonable; and to the same amount the deduction allowed . . . for rent actually paid ought to be fixed, so that owners and renters should enjoy equal privileges under the law."

The same views were held by the Special Revenue Commission of 1865.† This commission recommended that "in

* Act of 1864, section 117.

† House Executive Documents, 1st Session, 39th Congress, No. 17, vol. vii. This

assessing the income tax no allowance whatever be made for house rent, or, at least, that the income allowed to be deducted for rental should not in any case be allowed to exceed three hundred dollars. As the law now stands, rentals of an excessive and unreasonable amount are often deducted; and the gain to the revenue in the city of New York alone, from the repeal of that part of the act authorizing the deduction of rentals, would, in the opinion of the revenue officials, amount to over two millions of dollars per annum."

The other deductions expressly allowed by law were as follows: "the amount actually paid for labor or interest by any person who rents land or hires labor to cultivate land, or who conducts any other business from which income is actually derived";* "the amount paid out for ordinary or usual repairs, provided that no deduction shall be made for any amount paid out for new buildings or permanent improvements or betterments made to increase the value of any property or estate";† "the losses actually sustained during the year arising from fires, shipwrecks, or incurred in trade, and debts ascertained to be worthless, but excluding all estimated depreciation of value";‡ the amount of all national, State, and municipal taxes paid within the year; and "losses within the year on sales of real estate purchased two years previous to the year for which income is estimated."§

V.

The administration of the income tax was under the charge of the Commissioner of Internal Revenue, an office created by the act of 1862; and the assessment and collection of the

commission was appointed under the act of March 3, 1863, to consider and report on the revision of the revenue system. The members were David A. Wells, Stephen Colwell, and S. S. Hayes.

* Act of 1867, section 117. But the same provision in substance was introduced in the act of 1864.

† Act of 1867. In the act of 1864 it was "amount paid out for usual or ordinary repairs, not exceeding the average paid out for such purposes for the preceding five years."

‡ Act of 1867.

§ Act of 1867. This clause was not retained in the act of 1870.

tax devolved upon the assessors and collectors of the internal revenue. The income assessed was that for the calendar year. At first the tax was assessed on or before the 1st of May following, and was due on or before June 30; but under the act of 1867 the assessment was made on or before the 1st of March, and the tax was payable on or before the 30th of April, this change applying to the assessment of 1867.*

The penalty for delay in payment was, at first, an addition of 5 per cent. to the amount of the tax remaining unpaid (act of 1862); then 10 per cent. (act of 1864); and later 5 per cent., with interest at 1 per cent. per month until the tax was paid (act of 1867). The penalty was imposed if the tax remained unpaid for thirty days after it became due, and for ten days after notice and demand thereof by the collector. The collection of the tax could be enforced by levying on the property of the delinquent.

The most serious difficulty in the assessment of an income tax is of course to ascertain the income of the tax-payer. In these acts the main reliance was upon the tax-payer's written declaration, verified or corrected by such information as the assessor might have or such investigation as he might lawfully undertake. We follow the provisions of the act of 1867, noting any important points of difference between that and preceding acts: "All persons" were required "to make and render a list or return . . . of the amount of their income, gains, and profits." This return was "to be verified by the oath or affirmation of the party rendering it."† In case any person neglected or refused to make a return or made a fraudulent return, the assessor was to make out the return "according to the best information" he could obtain, "by the examination of such person or his books or accounts or any other evidence." In these cases of refusal or neglect, 50 per cent. was added to the tax due on the list as made out by the assessor. In case of a fraudulent return, 100 per cent. was added. Moreover, under a general provision of the internal revenue laws, any person convicted in the United

* The reasons for the change are stated in the *Report on Finances for 1864*, p. 70.

† The oath was first required under the act of 1864.

States court of making fraudulent returns might be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year or both (act of 1864, section 15). The assistant assessor might also increase the amount of any list or return, if he had reason to believe that it had been understated. The person who made the return might then "exhibit his books and accounts, and be permitted to declare under oath or affirmation the amount of income liable to be assessed; but such oaths and evidence" were not to be "considered as conclusive of the facts, and no deductions claimed in such cases" were to be allowed "until approved by the assistant assessor." There was an appeal from the decision of the assistant assessor to the assessor, whose "decision thereon, unless reversed by the Commissioner of the Internal Revenue," was to be "final."

During the greater part of the time that the income tax was in force it was the custom to publish the incomes of individual tax-payers in the local newspapers. At first, in accordance with the instructions given by the Commissioner of Internal Revenue, all information in regard to individual returns was withheld from the public. But in the absence of any express legislative prohibition of publicity, and under the pressure of newspaper enterprise, the custom was soon established of publishing full lists of tax-payers and their incomes. In support of this practice it was urged that its effect was to increase the assessment and secure more complete returns. But it is a question whether its advantages in this respect were great enough to offset the annoyance and some injury to which it often subjected the tax-payer, and the odium which was attached to the tax in consequence. The practice gave rise to much dissatisfaction and complaint, but was not abolished until prohibited by the act of 1870.

VI.

By the act of 1864 (section 19) the personal income tax was to be levied until and including the year 1870, and no longer. Under this provision the last income assessed would have been that of 1869. It was an oversight, doubtless, that this limitation did not apply to the tax on interest, dividends, and gov-

ernment salaries; but, as the act was passed, the tax on these forms of income was held to be continuous, remaining in force until repealed by Congress.

As the time for the expiration of the personal income tax drew near, the question as to its renewal or continuation was raised. The revenues of the government so far exceeded expenditures that a considerable reduction of taxation was possible; but many believed that the income tax should be retained until certain other taxes, believed to be more objectionable, had been abolished.* In 1870, a bill "to reduce internal taxes," and expected to secure a total reduction of nearly \$34,000,000, was reported to the House by the Committee of Ways and Means.† It continued the income tax indefinitely, retaining the 5 per cent. rate, but raising the exemption to \$1,500. This increase in the exemption would, it was estimated, effect a reduction of \$5,741,105 in the revenue from this tax. The proposal to continue the income tax met with strong opposition. In both the House and the Senate the question was debated at length. The *Globe* contains a long series of speeches in which the arguments both for and against the tax are urged with tedious repetition. Without attempting to follow the debate, we present some of the arguments advanced on each side of the question.

The counts in the indictment of the income tax, if we may so express it, were substantially as follows:—

1. The income tax was inquisitorial. It was "at war with the right of every man to keep private and regulate his business matters."‡
2. The assessment in different sections was unequal, and the territorial distribution of the tax unjust. It was pointed out that more than

*"So long as a large internal revenue is required by the financial necessities of the government, a portion of that revenue should be collected from the income tax. The reason for this seems apparent and forcible. The tax simply reaches the profits of trade and business and the increased wealth of individuals from investments." Report of Commissioner of Internal Revenue, 1869.

†It removed the taxes on successions and legacies, \$2,434,593; on gross receipts of railroads, insurance companies, etc., \$6,109,617; on sales, except sales of liquor, \$3,197,784; on gas, \$2,116,005; special taxes, to the amount of \$3,197,763; and taxes on carriages, watches, etc.

‡ See some emphatic language by Mr. Kelley, of Pennsylvania, *Congressional Globe*, p. 3094.

half the tax was collected from 20 out of the 235 revenue districts; that California paid more income tax than the States of Indiana, Iowa, Wisconsin, Kansas, and Nebraska combined; New Jersey more than this same list of States, with the addition of West Virginia; that one district in Illinois paid more than all the other thirteen, two districts of Massachusetts about as much as the remaining eight; that Massachusetts, with $5\frac{1}{2}$ per cent. of the total taxable property of the country, paid over 12 per cent. of the total income tax, and Illinois, with 6 per cent. of the taxable property, paid only $4\frac{1}{2}$ per cent. of the income tax.

3. The tax was unjust because it rested on a small number of citizens. Out of 40,000,000 people, there were only 272,000 who were subject to it.

4. On the other hand, it was said that the tax was oppressive, because it did not fall upon the wealthy few, but was, in the end, paid by laborers and consumers in the form of lower wages and higher prices.

5. The tax was not honestly collected. "Does any one believe," asked one member, "that there are only 9,464 persons with incomes exceeding the sum of \$5,000? Why, there are that number in New York City alone. Nobody can deny it. Does anybody believe that out of the whole 40,000,000 people in the United States there are only 272,843 who have incomes exceeding \$1,000, that only about half that number have incomes not above \$1,400?"*

6. The tax was "perjury-provoking," — a tax on conscience, offering a premium for dishonesty.

7. It was a "war tax," and to continue it was a breach of "the pledged faith of Congress." The people had been assured by "as solemn a pledge as can be given in a law of Congress" that the tax should expire in 1870.

8. The tax was unconstitutional; for it was a direct tax, and ought therefore to be apportioned on the basis of population.

9. The income tax laws were inconsistent and unjust in their provisions. The earnings of labor were taxed as severely as income from invested capital.† Again, there was no exemption allowed on incomes consisting of interest and dividends; and this fact worked injustice to those widows and orphans who were dependent on small incomes of this description.‡

The following were some of the arguments offered in support of the tax:—

1. It was asserted that there "never was so just a tax levied as the income tax." It was "an assessment upon every man according to his

* Remarks of Mr. Sargent, of California, in *Congressional Globe*, p. 4629.

† See remarks of Mr. Garfield, in *Congressional Globe*, p. 4636.

‡ "This tax is not levied alone on those who have more than \$1,000 per annum. I know those who have not \$300 a year who pay an income tax, many of whom are

ability to pay,—according to his annual gains.”* It was the only tax in our system which regarded differences of wealth,—“the only tax which makes any distinction between John Jacob Astor and the poorest drayman in the streets.”†

2. It was “about the only tax which reaches to any extent the large amount of personal property in this country”; for “personal property escapes taxation in the States almost entirely.”‡

3. It was true that the tax was levied on a small number of people. But they were the ones who did not contribute their share of other taxes, of taxes on consumption. Said Senator Sherman, “If you leave your system of taxation to rest solely upon consumption, without any tax upon property or income, you do make an unequal and unjust system.”

4. The income tax was a means, and probably the only means, of assessing the bondholders. The United States bonds were “exempt from all taxes except such income tax as may be levied by the United States upon all income,” the only tax that rests on this class of property, amounting in this country now to more than \$1,000,000,000.”§

5. If there had been a good deal of opposition to the income tax, it did not come from the people as a whole; for the great body of the people were not reached by it in any way. The clamor for the abolition of the tax was a “local and manufactured cry.” It represented “a special interest.”||

widows and orphans. I mean those who have a small amount invested in bank and other stock.” Remarks of Mr. Archer, in the *Congressional Globe*, p. 4033.

* Remarks of Senator Sherman, *Globe*, p. 4714. Senator Sherman was one of the ablest supporters of the tax; and but for him the Senate would probably have thrown out the sections continuing the tax altogether. Most of the arguments given here are found in his remarks, and the language quoted is generally his. Some of the extracts are taken from a speech delivered by him in the next session, when the income tax question was again under consideration. This speech is printed in the Appendix to the *Globe*,—41st Congress, 3d Session,—and has been published in his *Collected Speeches*.

† Mr. Blair, of Michigan, *Globe*, p. 3993.

‡ Mr. Ward, of New York, *Globe*, p. 4027.

§ Senator Sherman, *Globe*, p. 4716.

|| “We all know how liable we are to be controlled by special interests, to the exclusion of the great mass of the people. Special interests besiege our committee rooms, and besiege us as we come to our seats daily, follow us to our rooms and press their special claims upon us.” Mr. Ward, of New York, *Globe*, p. 4037. “The possession of large property and the ability to earn large income necessarily gives to those enjoying that income great influence over public opinion. They speak through the daily press, from high official stations, from great corporations, from cities where wealth accumulates, and with all the advantage of social, personal, and delegated influence. I know the power of this influence.” Senator Sherman, *Ibid.*

6. The income tax was not more inquisitorial than many other features of the internal revenue system, or than personal property taxes in the States. Exceptional cases of hardship and injustice would exist under every tax law.

7. The tax might be the occasion of false statements and perjury, but the fact that rich men commit perjury to avoid the payment of the tax was no reason for excusing them from the payment of it altogether.*

8. The abolition of the income tax was a part of the policy of the protectionists, who "earnestly favor reduction in this and all internal taxes, in order to create a necessity for their onerous and unjust system."†

9. The revenue from the income tax was needed. It could not be abolished unless other taxes far more objectionable and oppressive were to be retained.

It was not expected, probably, that the weight of any of these arguments on the merits of the question would seriously affect the result. At any rate, an analysis of the vote leads to the conclusion that the proportion of the tax paid by a particular section of country was usually the dominant consideration with members from that section. The division was not on party lines, although it so happens that in the Senate all the Democrats went on record against the tax; but so, too, did many of the Republicans.

The House voted by a strong majority to retain the tax, having first reduced the rate to 3 per cent. and raised the exemption to \$2,000. The Senate was more evenly divided on this question; and there the income tax sections of the bill underwent many vicissitudes of fortune before their fate was finally decided. The Committee of Finance, of which Mr. Sherman was chairman, reported these sections in the form adopted by the House. The opposition in the Senate was immediately made manifest. Mr. Conkling wanted to take a vote at once on striking out the income tax. Mr. Sherman reminded the Senate that, if that tax was stricken out, they would have to restore some other taxes which it was proposed by this bill to repeal. It was, he insisted, simply "an alternative between this and some other form of tax." After some debate the vote was taken, and the income tax was stricken

* Mr. Blair, of Michigan, *Globe*, p. 3993.

† Mr. Wilson, of Minnesota, *Globe*, p. 4023.

out by a vote of 34 to 23. This threatened a reduction in the revenue of \$17,700,000, which, with the reduction of \$74,000,000 already provided for in the bill, would, Mr. Sherman declared, result in a deficit. How should this deficit be made good? There were senators who expressed themselves in favor of retaining the existing taxes on tea, coffee, and sugar, which, as the bill then stood, were to be reduced; others thought it was possible to abolish the income tax, and still make all the other proposed reductions; and, finally, the question was referred to the Committee of Finance for reconsideration.

In behalf of the committee Mr. Sherman reported that they accepted the decision of the Senate in regard to the income tax as final, and would make no further effort to continue it; but, to offset the loss of revenue, they proposed to restore the existing duties on sugar and the tax on gross receipts. The Senate was not disposed to sustain the committee in this action, and voted at first to make the proposed reductions in the sugar duties and abolish the tax on gross receipts; but, on reconsideration, this decision was reversed as regards the sugar duties.

These votes had all been taken in Committee of the Whole. When the Senate, sitting in ordinary session, came to review the bill, one or two senators who had voted against the income tax declared themselves now convinced of the necessity of retaining it; and before the main question was put Senator Wilson, with the intention, probably, of making the measure more acceptable, moved to reduce the rate to 2½ per cent. and limit the duration of the tax to two years. But this motion was voted down, and the Senate then concurred in the action of the Committee of the Whole striking out the income tax. This was the second vote on the question, and stood 26 to 22. Mr. Sherman now moved to restore the tax on gross receipts. He did not believe that "there were many taxes in the tax list worse than the tax on gross receipts. But," he said, "we cannot repeal all the taxes proposed to be repealed." The motion was lost by a tie vote, 25 to 25. The result of this vote seems to have turned the tide in favor of the income tax. Two or three senators had voted against the income tax with the expectation that the tax on gross receipts would be restored;

but, since the Senate had voted to dispense with the latter tax, it was necessary, they believed, to restore the former. A motion was accordingly made to reconsider, and was carried by a vote of 26 to 25. Mr. Wilson again offered the amendment mentioned above, which was now accepted; and the income tax sections thus amended were restored to the bill by a vote of 26 to 22,—the third vote on the tax. Even then the enemies of the tax rallied their forces, and all but succeeded in carrying their point. They managed after a good deal of parliamentary manœuvring to bring up the question again on a motion to strike out. The motion was lost, but only by a tie vote, 26 to 26,—this being the fourth vote on the income tax.

The friends of the tax had won after a hard struggle, but it was a rather barren victory. The rate had been reduced to 2½ per cent., the exemption raised to \$2,000, and the tax, thus curtailed, was to expire in two years. In the following sessions of Congress no one seems to have had the hardihood to propose to prolong its existence beyond that period.

The enemies of the tax, however, thought it worth their while to attempt to deprive it of even this short lease of life. In the next session of Congress a bill repealing the income tax sections of the recent act was introduced in the Senate, debated at some length, passed by a vote of 26 to 25, and sent to the House. The House at once returned it with the respectful suggestion that the Constitution vested in the House of Representatives the sole power to originate such measures. A similar bill, however, had been introduced in the House by one of its own members, and was easily defeated by a strong majority.

The influence of sectional interests, to which we have referred, is well illustrated by this last vote of the House; for it was taken after the question had been thoroughly discussed on the floors of Congress and by the press throughout the country. Members had had ample time to consider the question, and learn the wishes of their constituents. The vote stood 117 in favor of the tax to 91 against it. The States of California, Connecticut, Massachusetts, New York, New Jersey, Maryland, Pennsylvania, and Rhode Island, which, taken together, contributed about 70 per cent. of the total income tax,

cast 61 votes against the tax, and only 14 in favor of it. The States of Alabama, Arkansas, Indiana, Iowa, Michigan, Nebraska, Mississippi, Missouri, New Hampshire, North Carolina, Tennessee, Texas, Virginia, West Virginia, and Wisconsin, which together contributed less than 11 per cent. of the tax, cast 69 votes in favor of the tax, and only 5 against it. Of the 91 votes against the tax, about 53 represented districts contributing more than \$100,000 each. About 21 represented districts contributing less than \$50,000 each. Of the 117 votes in favor of the tax, only 9 represented districts contributing over \$100,000 of tax; while more than 80 represented districts contributing less than \$50,000.

A word must be added as to the disposition made of the tax on interest, dividends, and United States salaries under the act of 1870. When the question was under discussion in the Senate, it was pointed out that practically this tax had gone into operation seven months later than the tax on personal income. Both taxes had been introduced under the act of July 2, 1862. But it must be borne in mind that the one was assessed annually on the personal income of the previous calendar year, while the other was assessed as the dividends, interest, or salaries subject to it were paid or became due. As the act went into force August 1, income consisting of dividends, etc., was taxed only from that date; but the first assessment of the personal income tax in 1863 covered the entire calendar year 1862. In order, therefore, to equalize the duration of these two taxes, the Senate voted to continue the tax on dividends, interest, etc., until August 1, 1870. This vote was passed under the assumption that the personal income tax was to end in 1870, with the assessment of the income of 1869. But it was afterwards decided, as we know, to continue this tax two years longer at a lower rate; and an attempt was made to provide for a similar extension of the tax on dividends. But, after the act had been passed, it was found to provide that the tax on dividends, interest, and government salaries should be assessed only "during the year 1871." The result was that the 5 per cent. tax on this form of income terminated, as had been intended, August 1, 1870; but the 2½ per cent. tax did not begin until January 1, 1871,

and then lasted only one year, while the 2½ per cent. tax on personal income was assessed two years, covering the income of 1870 and 1871.

VII.

It is to be regretted that we have not more complete statistics and fuller information in regard to the assessment of the income tax. The annual reports of the Commissioner of Internal Revenue give in detail the amount of tax collected in each State and district; but they do not, as a rule, give the amount assessed, even for the entire country, and they contain no statements whatever of the amount of income returned for assessment.

We have, however, estimated as well as we could from the available data the amount of taxable income returned in different years; *i.e.*, the amount of income exclusive of exemptions and deductions. Most of these estimates are based upon the annual collections. They are approximations only; but they must come near enough to the actual returns to show the direction, and roughly the extent of the variations from year to year.*

From the amount of tax collected in 1864 we conclude that the amount of taxable income returned in 1863 could not have been far from \$400,000,000. In 1864 it must have been about \$500,000,000, and in 1865 about \$850,000,000. This remarkable increase may have been in some measure the result of greater efficiency and more experience in the administration of the tax; but it must have been mainly due to an actual increase in money incomes caused by the inflation of the currency.

In 1866 there was a marked falling off in the returns. The aggregate of taxable income for that year was about \$706,000,000. The upward movement of prices came to an end in 1865; and this circumstance must have had an unfavorable effect on the nominal, if not the real, profits of many forms of business enterprise. It may well be, then, that there was, in fact, less income to be assessed in 1866 than there had been

*For our results and the explanation of the method by which we obtained them see Table II., Appendix, p. 462.

the year before. At the same time it is probable that the tendency to evade the tax and make incomplete returns of income was becoming stronger and more generally operative. It could hardly fail to be stimulated by the very high rates introduced under the act of 1865. These rates had the effect, in most cases, of more than doubling the tax to which the same income had been previously subject.* We can readily believe that many persons who stood up squarely to be taxed on their full incomes, while the rate was not above 5 per cent., might resort to some device to evade in part, at least, the burdens which the act of 1865 imposed. It is not difficult to understand why this effect of raising the rates would not be apparent in the first assessment under the act in 1865; for it would naturally be concealed and more than counteracted until the upward movement of prices came to an end.

It may be, too, that the returns of 1866, as compared with those of 1865, show the influence of the war spirit upon the productiveness of the tax. The assessment of 1865 was made just as the war had been brought to a successful termination. The North was rejoicing in the triumph of victory; and there was no period, probably, when the burden of war taxation was more cheerfully met. After a year of peace the people began to feel that such high taxes were no longer necessary. To take one-tenth of a man's income in addition to all the other taxes he was required to pay may then have seemed like an unjustifiable confiscation of property.

After the act of 1867 went into force, a considerable reduction of taxable income would of course result from raising the exemption from \$600 to \$1,000. But the probability is that the falling off which actually took place was somewhat greater than can be accounted for in this way. The amount of taxable income returned in 1867 was about \$548,000,000, which shows a reduction of about \$158,000,000 below the returns of 1866.† The amount of income assessed in 1868

*The effect, for instance, on an income of \$10,000 would be to raise the tax from \$282 to \$720. The increase in rates was most marked upon that portion of income between \$5,000 and \$10,000. Here the rate rose from 3 per cent. to 10 per cent.

†The number of persons assessed in 1867 was 266,135. For each of these the higher exemption would make a reduction of \$400 in taxable income. That

was about \$467,000,000. In 1869 and 1870 the assessments averaged about \$519,000,000, so that, on the whole, there was but a slight reduction while the act of 1867 was in force,—hardly as much as we should have expected in a period of falling prices.

The act of 1870 raised the exemption to \$2,000. This of itself would make another large reduction in the returns of taxable income. But here again, as in 1867, the amount actually returned—about \$320,000,000—shows a reduction greater than the higher exemption would explain, so that other causes must have been operative. The best evidence of this is found in a comparison of the number of persons taxed before and after the act went into operation. In the last assessment, previous to the passage of the act the number of persons returning incomes over \$2,000 was 94,887; but in the next assessment the number fell off to 74,775. (See Table III.)* In other words, nearly 20,000 incomes besides those excluded by the higher exemption disappeared from the assessment rolls after 1870.†

It will be found, too, that the incomes over \$2,800 returned after 1870 were not so many as those over \$3,000 had been before, and that the incomes between \$2,800 and \$12,000 were not so many as those between \$3,000 and \$11,000 had been in previous returns.‡

would account for \$106,000,000 of the total reduction. There would also be the loss caused by the entire exemption of all incomes between \$600 and \$1,000. We find that in 1867 the number of persons assessed was less by 194,035 than it had been in 1866. If those who thus disappeared from the assessment rolls had on the average an income of \$366, the total reduction would be fully explained; but \$366 is rather too high to represent the average of incomes between \$600 and \$1,000. The inference is that there must have been some loss of income besides that which legitimately resulted from raising the exemption; but, if we may assume that the average for incomes between \$600 and \$1,000 was not over \$300 nor under \$700, we are justified in concluding that the amount of reduction not covered by the higher exemption could hardly have exceeded \$25,000,000, and may have been as low as \$15,000,000.

* Appendix, p. 494.

† Many of these incomes may not have been much above the limit, and may have escaped taxation simply because the tax had been so reduced that the assessors could not afford to take any great pains to secure it. For instance, an income of \$2,100, which had previously been subject to a tax of \$55, would now, if assessed, contribute only \$2.50.

‡ It is not possible to ascertain from the published statistics exactly how much of the reduction in taxable income, under the act of 1870, remains unex-

We find, then, that the returns of taxable income fell off from \$850,000,000 in 1865 to \$320,000,000 in 1871 and 1872, and that, while a portion of this reduction was the result of raising the exemption, a considerable amount must have been due to other causes. It is noticeable, too, that the reduction was not constant or uniformly distributed throughout the period, but took place principally in the years 1866, 1867, and 1870. In 1866 there was a reduction of nearly \$150,000,000 without any change in the exemption. In 1867 there was a further reduction of about \$160,000,000, partially explained by a higher exemption; and in 1870 another reduction of \$220,000,000, again partially explained by a higher exemption.

The statistics at our disposal appear to justify the inference that from \$290,000,000 to \$330,000,000 of the total reduction in this period was the legitimate result of raising the exemption, and that from \$200,000,000 to \$240,000,000 must be explained by an actual reduction of incomes, by increasing evasion of the tax, or by both of these causes. The period was one of falling prices, which would of course tend to produce a reduction of income. At the same time the tax was becoming more and more unpopular,—at least among those who were required to pay it. As a war tax, it had been accepted with comparative cheerfulness; but, under the prospect that it might become a permanent peace burden, the tax-payers became uneasy. This feeling was naturally intensified by the renewal of the tax in 1870, after the limit set to its duration in previous legislation had expired. Raising the exemption to \$2,000 did not, probably, make the tax any more acceptable to those whose incomes were still subject to it. Whether with good reason or not, they regarded the high exemption as an unjustifiable discrimination which savored of class legislation. All this would make the tax-payers more ready to compromise with conscience when called upon to state their incomes. Furthermore, the disposition to evade the tax may have been rendered more effective by the changes in the direction of leni-

plained by the higher exemption; but, if we may assume that the average of incomes between \$1,000 and \$2,000 was not less than \$1,400 nor more than \$1,500, it is safe to conclude that the unexplained reduction must have been between \$35,000,000 and \$50,000,000.

ency which, under the act of 1870, were introduced in the method of assessment. It had previously been the practice, as has been stated, to publish the returns of income in the local newspapers; and the law had required declarations from all persons of lawful age. It is not to be supposed that this requirement was enforced to the letter; but it gave the assessors the right to demand a declaration from all such persons. Under the act of 1870, however, the declaration could only be required of those whose incomes exceeded \$2,000; and the publication of individual incomes was forbidden. These changes were doubtless concessions to the feeling against the tax, and may have rendered evasion easier.

Reference has already been made to the exceptional character of the assessment of 1868. If we compare the number of persons assessed while the act of 1867 was in force, we can hardly fail to notice further indications of abnormal disturbances in that assessment. (See Table III.) The period, as a whole, shows a slow increase in the number taxed;* but in 1868 the number is less by 11,500 than in the year before, and less by 22,000 than in the year after. The effect is seen in the amount of tax assessed, which is less by \$4,000,000 than it had been the year before. The corresponding difference in the returns of taxable income was \$80,000,000.

This was the last assessment under President Johnson's administration, and in all probability simply indicates the bad results of changes made in the list of assessors and collectors. There are some interesting remarks and statistics bearing on this point in the reports of Commissioner Rollins. The following extract is from the Internal Revenue Report for 1867: p. "The number of changes which have occurred during the last fiscal year in the *personnel* of the service exceeds that of any year preceding, and, so far as relates to assessors and collectors, may be conveniently presented in tabular form:—

*This increase is confined mainly to the lowest class. If we leave the year 1868 out of consideration, the figures for the other classes are remarkably uniform. The decrease in 1868 shows itself to some extent in all classes except the fourth. In that, rather strangely, the number is considerably higher than for any other year. See Table III., Appendix, p. 494.

No. of changes in each office.	COLLECTORS.		ASSESSORS.	
	No. of districts in which changes occur.	No. of persons discharging duties of office at different times during the year.	No. of districts.	No. of persons discharging duties, etc.
1	38	76	32	64
2	14	42	32	96
3	60	240	50	200
4	1	5	2	10
5	1	6	—	—
	114	369	116	370

Thus it will be seen that in 114 districts 369 persons served as collectors, and in 116 districts 370 persons discharged the duties of assessors. The great number of changes in several of the districts arose from the rejection by the Senate of the nominees of the President." Again, in the Report for 1868 (p. xviii), the Commissioner speaks of "the antagonism between the legislative and executive departments which has so sadly damaged the service of the past two years." The new men thus introduced into office were inexperienced, if not otherwise incompetent; and they must have made this assessment with the consciousness that in all probability they would not be retained in office long enough to make another.

VIII.

The chief requisites of a tax in time of war are productiveness and promptness. A war tax must, first of all, be such that, notwithstanding the disturbed industrial conditions which may prevail, it will yield a considerable revenue very soon after its adoption. The questions of justice in its distribution or incidence, and of freedom from vexatious features in its assessment, cannot be ignored; but their presence

is not felt as in times of peace, when the system of taxation is expected to be more or less permanent.

The tax on incomes was one of the most productive of our war taxes. During the ten years that it was assessed it yielded \$376,000,000, which was more than one-fifth of the total internal revenue for that period. In 1865 nearly 29 per cent. of the internal revenue was derived from this source. In the matter of promptness the record is not so favorable. The internal revenue system went into operation September 1, 1862. The tax on dividends, interest, and salaries began to bring in revenue at once; but the amount was small, and only \$2,000,000 had been collected from this source up to July, 1863. Under the 5 per cent. rate imposed by the act of 1864 this tax yielded from \$8,000,000 to \$9,000,000 annually. The returns from the personal income tax did not begin to come in until about July 1, 1863. But nearly all of the first assessment, amounting to about \$14,000,000, must have been collected before December 1, 1863. Up to that date the total collections of internal revenue amounted to nearly \$75,000,000. It is safe to say that at least one-fourth of this amount consisted of the two forms of income tax.

That these sources of revenue were not more promptly productive was not the result of difficulties inherent in the nature of an income tax. The delay was, to a large extent, needless. It was doubtless due, in part, to the entire novelty of this form of taxation in the United States, and in part to the somewhat timid and dilatory policy of the Secretary of the Treasury. If the income tax provided for in the act of 1861 had been assessed, it would have brought into the treasury before December, 1862, something like \$8,000,000 or \$9,000,000,—not a large sum, to be sure, but it would have come in at a time when revenue was sorely needed. Moreover, when the tax went into operation under the act of July, 1862, the dates fixed upon for its assessment and collection were needlessly remote. There was no apparent necessity for waiting until April 30, 1863, before making the assessment, and until June 30 before beginning with the collection.

Such delay would doubtless be avoided if similar conditions of urgency should ever prevail again. An income tax could

be assessed on the income of the year preceding its enactment without more delay than is required for organizing and setting in operation the machinery of assessment. With an internal revenue office already in existence, the time needed for this could hardly exceed a few weeks.

An income tax has the considerable advantage of being responsive to the influences of patriotism, which are certain to be strong whenever a serious war is undertaken by a democratic country. Indirect taxes have not this quality. Their returns depend on the course of trade, industry, and commerce, or on consumption, and are likely to be adversely affected by the outbreak of war. But the productiveness of an income tax depends, in large measure, upon the readiness of men to reveal their incomes and meet the tax. To this extent it assumes the nature of a voluntary contribution, to which men will respond more freely when they realize that the hour is one of sore need and, perhaps, of peril to the country. Otherwise it would have taken a stronger government than ours and a more efficient civil service to secure as good results as were obtained from this form of taxation. On the floor of Congress Mr. Morrill referred to "our income tax" as being, "after all, but little more than each individual chooses to pay on his own estimate of his income"; and at another time he said that "the law left it almost to the conscience of each man how much he should pay, and all seemed to vie with each other as to who should pay the most." Doubtless this picture, although rose-colored, had a background of substantial truth. No one seriously imagines that under the war tax all income was fully revealed and adequately assessed; but it is certain that better results were secured from the tax, and with less complaint and opposition than would be possible in ordinary times. It would have been strange, indeed, if the patriotism which led men to volunteer for the field in such numbers had been inoperative when contributions of money were called for.

Our experience with the war tax, however, will hardly explain or justify the movement in favor of a personal income tax of the form now proposed and under the present conditions. Neither does it afford a fair indication of what results

may be expected from such a form of taxation now. We may safely predict that they will compare unfavorably with those which were obtained in the war period unless the assessment is made much more stringent and efficient. Probably, however, the assessment of the war tax went as far in the direction of stringency, and attained as high a degree of efficiency as the temper and disposition of the American people and the condition of our civil service will permit.

A tax on the interest and dividends of corporations presents a different aspect. So far as its assessment is concerned, it is free from the difficulties which beset the personal tax. It may be assessed with comparative completeness and without inquisitorial procedure, and affords a much more convenient and less vexatious method of raising revenue. But it greatly increases the difficulty of making exemptions or reductions out of regard to the circumstances of the tax-payers, and it reaches only one form of income. Justice requires the taxation of other forms also; and this it is difficult to do without a resort to the personal tax.

JOSEPH A. HILL.

THE UNEMPLOYED IN AMERICAN CITIES.

II.

THE present paper is an attempt to give in brief outline some account of the various methods and agencies for the relief or treatment of the unemployed that have been developed in American cities during the winter of 1893-94. Measures described in the January number of this *Journal* are here omitted unless new developments have occurred. No attempt is made to discuss the efficacy of the different methods or their probable ultimate result. The information here presented has been obtained from much the same authorities as were relied upon in the previous article. Of the twelve hundred circulars of inquiry sent to municipal officials, members of relief committees, officers of charitable organizations, and other citizens, a generous proportion have been carefully, often elaborately, answered. The writer wishes to express his renewed obligation to the many correspondents who have thus kindly assisted this investigation. Some additional data have been drawn from newspapers and magazine articles.

The account of relief measures is arranged not geographically, but according to a scheme of classification intended to bring out the essential character of the different undertakings, and based primarily upon the agency conducting the work, and secondarily upon the methods employed and the form of assistance rendered. Under each sub-heading, however, the arrangement of the cases given follows the geographical arrangement of the former article. The scheme of classification adopted is by no means sufficient to compass all the various devices which ingenuity and necessity have combined to invent. It often involves the putting asunder what the charitable have joined together, and the treating of certain relief schemes which combine several agencies and methods, either under two or more heads or else under the group to which they seem most essentially to belong. But, despite these defects, the scheme serves as a convenient method of summariz-

ing the great variety of devices which have been adopted to tide the unemployed over the period of depression. With these explanations the agencies and methods may be provisionally classified as follows:—

A. Enlarged efforts and sometimes novel methods of permanent charitable organizations in providing,—

1. Assistance in the form of supplies, usually given after investigation, and sometimes after a work-test;
2. Loans at a fair rate of interest;
3. Assistance in obtaining employment;
4. Employment usually paid in the form of supplies or orders.

B. Enlarged efforts or novel methods of the established municipal or county agencies of relief, in providing,—

1. Supplies or orders given after investigation, and sometimes after a work-test according to usual methods;
2. Special emergency employment.

C. Relief measures undertaken by citizens' committees or other agencies, in most cases called into existence to meet the special exigency in furnishing,—

1. Funds,—the committee disbursing subscriptions it receives among other charitable agencies;
2. Supplies disbursed (*a*) free; (*b*) at less than market rates; (*c*) upon loan in return for promise to work or pay; (*d*) after careful investigation;
3. Employment, (*a*) secured by committee; (*b*) provided by the committee; (*c*) paid for by the committee, but utilized upon public work; (*d*) paid for jointly by the committee and the municipality.

D. Relief measures by the municipal governments, by the undertaking of new public works or the acceleration of those already begun, in order to provide employment.

A.

The charitable organizations have very generally and very considerably increased the amount of their work. In the great centres many of them have multiplied their activities manifold. Thus in Boston the Associated Charities has more than

doubled its work, and in January dealt with four times as many new cases as in the same month a year ago. The Providence Society for Organizing Charity has increased its work about one-half. In Brooklyn the organized societies have borne the brunt of the crisis. In Detroit they have tripled their activities. In Milwaukee they have doubled their work. In Minneapolis they have increased it three hundred or four hundred per cent. In New York a careful estimate places the disbursements of some twenty organized societies during the six months ending with February at about \$600,000. Many of the smaller cities, even among those where the depression was slightly felt, show an increase in the work of their permanent charitable organizations. At the same time it is to be remembered that there are many communities, particularly in the Southern States and in the agricultural States generally, that do not show even this index of unusual distress.

There have been during the past twelve months a considerable number of permanent charitable organizations founded or reorganized, most of them late last fall, doubtless as a preparation for the anticipated distress of the winter. For example, Associated Charities or Charity Organization Societies have been formed in Somerville, Massachusetts; Woonsocket, Rhode Island; Schenectady, New York; Elizabeth, New Jersey; Scranton, Pennsylvania; New Castle, Delaware; Anderson, Indiana; Eau Claire and La Crosse, Wisconsin; Memphis, Tennessee; and Helena, Montana.

The work of permanent charitable organizations, so far as it concerns the unemployed, may, for the most part, be included under the following subdivisions:—

1. *Assistance in the form of supplies, usually given after investigation, and sometimes after a work-test.*—In general these societies have carried out this form of assistance with little change from their usual methods. A few illustrations may be given.

In Boston the Provident Association, which disburses food, fuel, and clothing upon investigation and, in some cases, after testing the applicant's readiness to work, has given nearly

double the usual amount of aid during the past winter. The Society of St. Vincent de Paul during the calendar year relieved 1,608 families, or 6,090 persons, an increase over the numbers of 1892 of 266 families, or 1,346 persons.

The United Hebrew Charities of New York relieved 18,370 families, or 50,440 persons, from October to February, at an expense of \$103,102, as against \$46,498 for the same period a year ago. The Brooklyn Association for Improving the Condition of the Poor during February aided 7,926 families, at an expense of \$10,249.

A form of assistance given with little or no investigation, but by a society that comes under this general head of permanent organizations, and that is an interesting modification of the common type of cheap food dispensaries under the patronage of permanent societies, may here be seen in the "St. Andrew's coffee-stands," of which there are six in New York City, supplying meals of bread and coffee for one cent. Meals are sold "without regard to age, sex, nationality, or creed," and without long delay for investigation. Soup-houses and cheap restaurants are maintained in a considerable number of cities by permanent societies of one sort or another; but most of these enterprises have been undertaken rather by agencies of a temporary character, and so belong to another division of this paper.

2. *Loans at a fair rate of interest.*—The loaning of funds to persons in temporary distress at a fairer rate of interest and with more considerate treatment than is accorded by the ordinary loan and pawn establishments is a mode of assistance that has of late attracted a good deal of attention, but has not been much resorted to by permanent charitable organizations. One prominent instance of such an undertaking is the Provident Loan Society recently organized in New York, with a capital of \$100,000. It loans sums up to \$100 on personal property at the rate of one per cent. per month, and is intended to be a paying as well as benevolent institution. Some ordinary charitable societies give assistance in the form of loans.

3. *Assistance in obtaining employment.*—In nearly all the large cities there are organizations which make it the whole or

part of their task to act as free bureaus of employment, and even to make special, active efforts to obtain employment for persons out of work. In this connection should be noted the work of the labor organizations, some of which maintain special employment offices for their own trades, and many of which act in one way or another as employment agencies. Of those organizations which exist solely for the sake of helping persons to secure employment, the Industrial Aid Society of Boston is an excellent example. This organization has greatly increased its efforts to meet the exigency of the times. During the six months from October, 1893, to March, 1894, it registered 2,757 applicants for employment, and found places for 814, as against 1,830 applicants and 1,146 places secured during the entire year ending with September, 1893. A comparison of the first three months of the two years shows a similar marked increase in the number of applicants over the number of places which were filled:—

	January-March, 1893.	January-March, 1894.
Employers applied	281	420
" supplied	213	307
Applicants for employment	622	1,281
Applicants received " "	527	528

Many of the charity organization societies and some other organizations, such as churches, maintain free agencies for employment as one department of their work. As one instance may be cited the labor bureau of the Associated Charities for Industrial Relief of Bridgeport, Connecticut, which during 1893 obtained 5,454 days' employment for women.

4. *Employment usually paid for in the form of supplies or orders.*—Permanent societies have very commonly increased this form of assistance. Often the employment is provided mainly as a work-test to determine the applicant's sincerity in asking for relief. In other cases, however, it is intended to demand something like a fair equivalent in work for the aid rendered. The following are instances of employment furnished by Charity Organization Societies:—

The Associated Charities of Cambridge opened a wood-yard which has given some employment to upwards of 200

men, at a gross expenditure of \$2,400, but at a net loss of only \$264.

The Associated Charities of Waltham provided work for women in sewing at 12 cents an hour, and for men in weaving mats.

In New Haven the Organized Charities have expended \$1,648 in giving employment during the three months ending with April, an increase of 218 per cent. over the same months of last year.

The Charity Organization Society of New York has greatly increased its work. In a single week it has furnished employment at the Wayfarers' Lodge for 1,203 men.

The Brooklyn Bureau of Charities has greatly extended its operations, and has provided temporary work in fur-cutting.

The Philadelphia Society for Organizing Charity has provided emergency work in the cleaning of alleys, employing a small number of men at \$1 per day.

The Associated Charities of Cincinnati, aided by something over \$8,000, received through the Citizens' Relief Committee, provided a considerable variety of emergency employment. Besides its work-room for women and wood-yard for men, it set men to work quarrying stone and wrecking old buildings, employing several hundred persons a day during a part of the winter.

The Indianapolis Charity Organization Society has provided work for women in washing, scrubbing, sewing, and even in visiting the aged, the work being graded according to the capacity and disposition of the applicant.

The Associated Charities of Des Moines expended \$1,327, employing men in cleaning the streets. The pay was given in the form of supplies.

In Chattanooga, Tennessee, the Associated Charities have provided laundry work for women.

The Associated Charities of San Francisco has been giving employment at its wood-yard on a self-supporting basis to an increased number of persons. During 1893 employment was given to 3,666.

B.

As was said in the case of established charitable societies, so it may be affirmed in the case of the established municipal and county agencies of relief that they have very generally, but by no means universally, increased the amount of assistance rendered. To give a few cases taken almost at random, it is stated that during recent months the public poor authorities of Lowell, Massachusetts, have increased their work 40 per cent.; those of Taunton, 200 per cent.; those of Elmira, New York, 50 per cent.; those of Yonkers, 300 per cent.; those of Pittsburg, 300 per cent.; those of Milwaukee, 200 per cent.; those of Detroit and Minneapolis, 43; and Omaha, 300 per cent. This list is probably a fairly typical one of those cities, large and small, where the depression has been severely felt. But it must be remembered that there are many cities of considerable population and a large number of smaller places where no noticeable increase in the public poor expenditure has been found necessary. Portland, Charleston, and New Orleans are examples of considerable cities where neither the poor relief officials nor any other agencies have found any special efforts required. Cincinnati is an instance where public relief has actually been diminished, the officials reporting that, owing to relief in work and supplies by the relief committee, there has been a somewhat less demand.

The work of the public agencies of relief, so far as it concerns the various classes of the unemployed, may be divided into two heads.

1. *Supplies or orders given after investigation, and sometimes after a work-test according to accustomed methods.*—In some cities even, as, for instance, in Scranton, Pennsylvania, where outside aid is not usually granted, the poor authorities have changed the policy to meet the special exigency. This has been the prevalent form of aid given. In some places minor changes in method have been made, such as the establishment of storehouses at which the poor could obtain supplies directly instead of getting them through orders upon the ordinary grocery stores. In some places, too, as, for example, in

Springfield, Massachusetts, the overseers have established wayfarers' lodges and wood-yards, in order to provide a more adequate work-test. But, in general, the methods pursued have been along the accustomed lines. Some details with regard to a few New England cities are here given:—

In Boston the Overseers of the Poor aided during the year ending with January, 1894, 3,381 families, an increase of 1,169 families over the previous year. The increase was especially marked in January, when, owing, as the overseers think, to the agitation and measures of the previous month, "the number of applicants rose to extraordinary figures"; and the number of families aided rose to 2,400, as against 1,434 in January, 1893. This aid is given to able-bodied men only in return for work in the wood-yard, somewhat over one dollar's worth of supplies being given for seven hours' work. The number of days' work performed on these terms was 3,899, as against 1,057 in the previous year. Of the 929 men who were given the opportunity to do this work, 723 availed themselves of it. The Wayfarers' Lodge, which is connected with the wood-yard, and which is intended for transients, has had a total of 33,317 lodgers during the year, this being not much in excess of the number of normal years.

During the last three months of 1893 the Cambridge Overseers of the Poor rendered nearly double the assistance that they did during the same months of the previous year, aiding 621 families, at an expense of \$2,398.

In New Haven the town authorities have expended from November to April \$16,265, partly to give employment, and also a small sum in maintaining a wood-yard.

In Providence the authorities have given assistance to 7,951 persons from November to May, as against 1,703 persons for the same months a year previous. All able-bodied men are subjected to a work-test.

2. *Special emergency employment.*—The notable experiment of providing work on such terms that the men receiving it should not thereby become paupers was instituted by the Overseers of the Poor of Boston, who appropriated \$3,000 to employ needy heads of families, with a view to prevent them from becoming regular recipients of relief. This employment

was given only after investigation, and the persons receiving it were not entered as paupers. \$1.25 was paid for eight hours' work at cutting, sawing, or piling wood. From December 19 to February 1 the number of men thus employed was 315, and the number of days' work furnished was 2,037½.

So far as the writer is aware, this peculiar method of relief has not been adopted elsewhere. In several cities, however, the poor relief authorities have taken special measures to provide work. Thus the Supervisors of the Poor of Joliet, Illinois, have afforded employment upon the streets to the extent since January 1 of 8,240 days' work, paying for it in groceries furnished. In Seattle, Washington, the County Commissioners have provided employment, in the form of ditching and grading, for the recipients of public aid.

C.

Relief measures undertaken by citizens' committees and similar bodies have constituted a most important factor in the recent methods of aiding the unemployed. Most of the large cities of the country have had during the past winter at least one committee, most often of a semi-official character, appointed to deal with the special exigency resulting from the diminution of accustomed employment. Some cities have had not only one, but several committees, some officially appointed, some springing spontaneously into being, all acting with a greater or less degree of co-operation. Other cities, as, for example, Chicago, have had successive committees, one taking the place of the other. In some places, notably Philadelphia, permanent organizations have assumed the functions, often quite foreign to their ordinary work, of relief committees. Lastly, some of the committees organized primarily to meet the immediate crisis have become relatively permanent bodies, and have prepared to continue their work at least into the coming winter.

The work of relief committees may be classified in three groups according as it has consisted mainly in collecting funds for other agencies, in distributing supplies, or in providing employment. Under each of these heads the writer has noted

nearly all the undertakings of a significant or extensive character of which he has been able to learn.

In running through the list, it will be seen that, while some special effort of this sort has been made in nearly all of the great centres of population, there have been few undertakings of very large dimensions, whether judged in relation to other semi-public expenditures or in relation to the number of persons who have been deprived of their ordinary occupations. In many smaller places relief committees, not mentioned in the following list, have raised some hundreds or even a few thousands of dollars which have been expended in a variety of ways, most commonly, however, in affording direct relief in food or other supplies, sometimes after investigation and sometimes without much delay. The ordinary soup-house where food is given away or sold at low rates has been rather frequently resorted to, though not so frequently, perhaps, as might have been expected. The work of the smaller relief committees in large cities has also been for the most part omitted from the present summary.

1. *Committees collecting funds to be subsequently disbursed among other charitable organizations.*—A considerable number of relief committees have been virtually committees of ways and means. Their work has consisted mainly, sometimes solely, in procuring funds for the maintenance of other relief agencies. A small portion of the funds subscribed through the Boston Citizens' Relief Committee were given to independent committees, to enable them to continue the giving of emergency employment to women. The following are cases where the collecting of funds for other agencies formed not a part of the work of the relief committee, but practically the whole of it.

The New York Citizens' Relief Committee had, up to March 15, disbursed some \$133,000 among various charitable organizations. Of this amount the members of the committee contributed \$61,750. The mayor's fund, largely contributed by public employees, but in part also by private citizens, had, up to the same date, disbursed about \$56,000 among charitable organizations. "The Emergency Fund to give Relief by Work" has reached the sum of \$151,512. This has been dis-

bursed as follows: to the East Side Relief Work Committee, \$102,519; to the West Side Relief Work Committee, \$21,150; to the East Side House, \$4,000; to the West Side Relief Committee, \$4,500; relief work at De Milt Dispensary, \$5,625; Tompkins Square Relief Committee, \$4,800; Woman's Conference of Ethical Culture Society, \$3,250; and in other smaller amounts. In Brooklyn the mayor appointed a committee to receive funds and distribute them among existing societies. The committee of the Rochester Chamber of Commerce raised about \$13,000, which was disbursed by the Society of Organized Charities. The Relief Committees in Cincinnati and Cleveland raised funds for established charities, the committee of the latter city turning over \$26,400 to the Bethel Charities.

2. *Committees furnishing supplies.*—Many of the important semi-official committees have made the disbursing of supplies, after one method or another, at least a part of their work. There have been further a multitude of small volunteer or private committees that have confined themselves to providing this kind of relief.

(a) Free food, lodging or clothing has been given out with little or no investigation in a considerable number of cities, and by a variety of temporary agencies, though not often by the principal relief committees. Thus food has been given away—to take for illustration the cities of a single State—at soup-houses in New York City, in Rochester, in Schenectady, in Yonkers, and doubtless in many other cities. In Chicago, during the earlier part of the winter, food, lodging, and clothing were given away on a large scale to any one who applied. In Minneapolis soup and bread were for a time offered free to the lodgers at police stations; but this plan was opposed by the Associated Charities, and has been discontinued by the present mayor. Pittsburg, Milwaukee, Omaha, Salt Lake City, are among the larger places where free soup-houses have been established. In a considerable number of places, moreover, where supplies are not directly given, they are furnished in return for meal tickets distributed at the discretion of citizens.

(b) The selling of food or other supplies at less than market

rates has been a common method on the part of special relief agencies of tiding the unemployed over the period of distress. The food has been sold sometimes with no question or formality, sometimes after investigation.

Three restaurants where meals are sold for five cents have been established in Boston by a volunteer committee. At the largest of these 67,538 meals were served between December 27 and March 2. Food is also sold to be taken away, and some families have been supplied without charge. A small proportion of the meals, also, are given away either directly by the restaurants or indirectly by individuals through a system of checks. One of the restaurants which was started especially for women did not pay, and was soon abandoned; but the others have more than paid expenses. In Worcester five-cent restaurants and lodging-houses have been established. A "supply kitchen" has been established in Providence, where food is sold at low rates, a plate of beef, for example, being offered for three cents. Still, it is intended to pay expenses. A Rescue Mission at Manchester, New Hampshire, furnishes meals for five cents, and "permits no one to go away hungry."

In New York the Industrial Christian Alliance has established seven restaurants and stores where about 1,000,000 five-cent meals and packages of groceries have been dispensed. The combined receipts from these establishments average about \$300 a day, and this sum just about pays expenses. The Business Men's Relief Committee, which has supplied the funds for this undertaking, has spent most of its surplus in tickets entitling their holders to meals, and has distributed over 500,000 such tickets through various charitable agencies. The total expenditure to March 29 was \$20,000.

The provision of coal, food, and other supplies at wholesale rates by Mr. Nathan Strauss, of New York, though the work of a single individual, deserves in point of magnitude to be classed with the operations of relief committees. Since the beginning of his work, he has sold at minimum cost price 41,000,000 pounds of coal, 400,000 loaves of bread, 400,000 pounds of sugar, 175,000 pounds of flour, 175,000 pounds of

coffee, 50,000 pounds of tea, and has supplied cheap lodgings to 60,000 men and 3,500 women at a personal loss, it is said, of \$100,000.

One of the most remarkable experiments in supplying the unemployed with food was that of the Citizens' Relief Committee of Paterson, New Jersey. Rations of sixteen ounces of food—bread, pork, fish, beans, rice, tea, beef, and sugar—were provided at a total cost to the committee of four cents for each ration. About 250,000 of these rations were given out, always after investigation by a visiting committee, and, in the case of able-bodied men, after test-work in wood-cutting. The amount expended by the committee was about \$12,000.

(c) Money, food, and other supplies have in some instances been advanced upon loan in return for promise to pay, or to work for the committee. Two notable instances are the relief methods in Philadelphia and Indianapolis.

The Philadelphia Citizens' Permanent Relief Committee, in order to preserve the self-respect of applicants for aid, advanced a portion of its assistance in the form of loans upon personal notes. The value of such loans amounted to \$1,797. Some of these loans have already been repaid.

The Commercial Club Relief Committee of Indianapolis during the winter supplied food at wholesale rates to *bona fide* and needy citizens upon promise to pay for the same, either in money or in work for the committee at 12½ cents per hour. About 5,000 persons were thus supplied with food at something like half the retail rates, at a total expenditure by the committee of about \$20,000. The actual cost of the food, good in quality and sufficient in amount, was from 18 to 25 cents per week for each person.

(d) The providing of money, supplies, and sometimes current house rent, given after careful investigation, has been a rather common form of assistance on the part particularly of the smaller relief committees. The most important committee employing this method was the Permanent Relief Committee of Philadelphia, which, however, toward the end of its work, substituted the work-test for investigation. Under this head should be classed much of the aid extended by the committees

organized by trades-unions for the relief of their members. In Boston the Relief Committee of the Central Labor Union disbursed some \$900, besides a large quantity of clothing. In Minneapolis the Committee of the Trades Council distributed some \$450 in provisions. The Worcester Relief Committee has expended about \$7,500 in supplies given after investigation.

In Brooklyn many relief committees have been organized, and most of them are working in co-operation. The Emergency Committee, organized in February, afforded relief to 4,805 people within the first month of its existence.

The so-called 6-15-99 Club, which now has 258 branches and 10,000 members in New York City, mostly among the laboring people, has done a good deal of work directly and through the ordinary charitable societies. The Citizens' Relief Committee of Syracuse has disbursed coal and provisions to the extent of about \$5,470.

The Citizens' Permanent Relief Committee of Philadelphia, besides its appropriations for emergency work, has disbursed through its thirty-two branches about \$130,000 in food, clothing, and other supplies to some 70,000 persons, or 17,938 families. Of the above amount, over \$7,500 went to the payment of current rents on condition that the tenants should not be evicted during the period for which the payment was made.

The Central Relief Committee of Washington, with the co-operation of the police, the Associated Charities, and other organizations, has disbursed relief to the extent of \$20,000. Meals are sold for ten cents, and meal tickets given out for free distribution.

In Minneapolis the mayor, acting practically as a relief committee, has disbursed supplies amounting to perhaps \$2,000 or \$3,000 per day. Several local relief committees are also at work.

3. *Committees providing employment.*—The demand most frequently made in behalf of the unemployed has been a demand for work; and this demand a considerable number of citizens' committees have sought in some measure to satisfy, by a variety of ingenious devices to provide emergency employment which would disturb as little as possible the conditions of the ordinary labor market.

(a) Work under private firms, contractors, or public officials, has in a number of places been obtained for the unemployed through the agency of the relief committee. The most notable instance of this form of relief was the work on the great drainage canal obtained for the unemployed of Chicago by the relief committee of last summer. A number of cities have employed on public work men taken from the lists of the relief committee. Much effort has been made also to obtain private employment. Thus the Boston Citizens' Relief Committee secured private employment for considerable numbers of women applying to it. Emergency committees have also organized special employment bureaus. Thus in New York City the free labor bureau of the 6-15-99 Club has found employment for many persons, securing places for 105 applicants in a single week. The free labor bureau of the Provisional Committee has found employment for considerable numbers. A group of citizens in New York have recently organized a Mutual Employment Society which will establish a free employment bureau.

(b) Emergency work, usually planned to interfere as little as possible with the ordinary labor market, has, in a good number of cities, been provided directly by the relief committee.

The Relief Committee of Boston provided employment in the making of rug carpets and quilts, paying women 80 cents per day and men unfitted for the outdoor relief work \$1 per day. Employment was given for three days each week. \$9,900 was paid in wages to men, about \$32,000 to women. The rooms were given rent free, and most of the material was contributed. Some \$3,276 were realized from the sale of the products of this labor. The committee also contributed \$11,550, which gave some employment to about 700 women in four emergency work-rooms established by private persons and furnishing work to a somewhat more skilled class. The Cambridge Relief Committee, in co-operation with the Women's Relief Committee, have employed about 125 women daily, giving each woman twenty hours' work, combined with instruction, each week, at 10 cents per hour. The total amount paid in wages was \$2,525.

The Providence Relief Committee furnished sewing to some 200 women, each working six half-days per week for \$2.40. The expense of this work was about \$4,300, and the receipts from the sale of the product amounted to \$553.

The East Side Relief Work Committee of New York provided work for garment workers, in making clothing, which was at first sent to the cyclone sufferers of South Carolina, and later distributed in the city. Wages paid were at first 70 and later 80 cents per day for five days in the week. 1,085 persons were given work, none for less than one week, and many for six or eight weeks. In addition, sewing and other work have been given out to about 116 women each week at their homes, at \$3 a week. The total expense of this work has been \$25,364, of which \$17,648 has been paid in wages. This committee also undertook the novel task of cleaning and whitewashing tenements. At this work 936 individuals have been employed at an expense of \$22,424, of which \$20,558 has been paid for labor. The owners of the tenements contributed \$259 to this work.

In Orange, New Jersey, the Special Relief Committee, in connection with the Bureau of Associated Charities, furnished work for men in sifting ashes and sawing wood, and for women in sewing, expending about \$3,260 in wages to men, and \$570 in women's wages. A wood-yard in Paterson provided some 2,500 days' work.

The Central Relief Committee of Baltimore opened a Wayfarers' Lodge, which, in co-operation with the Friendly Inn, already an established institution, undertook to care for all transient unemployed, of whom, under the police lodging-house régime, there had been great numbers in Baltimore. The two institutions provided for 250 lodgers nightly, but less than that number appeared; and it is believed that at least one hundred of the station-house lodgers left town as soon as the customary free shelter was closed to them. The committee provided work at breaking stone for a wholly different class of unemployed,—resident heads of families, chosen after investigation. Men were paid \$1 a day, and were given two or more days' work per week, an average of 121 being employed daily; and about \$6,394 was expended in wages.

In Chicago the Women's Club Emergency Association has been furnishing employment to several hundred women at its sewing-rooms.

(c) Labor of public utility, under the direction of public officials, has in a considerable number of cases been provided and paid for by the relief committees.

The Boston Citizens' Relief Committee employed men three days a week, at \$1.50 per day, in cleaning alleys under the direction of the regular foreman. About 17,000 days' labor were given, and some \$25,000 paid in wages.

In New York the East Side Relief Work Committee in November set a small force of men cleaning streets not ordinarily swept by the city. The force was gradually increased to 887 men. Tickets for this work were given out through the trades-unions, churches, and other agencies. 59,829 days' work at \$1 a day was given to at least 4,000 different men, at a total expenditure of \$65,738, of which \$62,346 went to wages.

The Citizens' Permanent Relief Committee of Philadelphia, which during the first part of the winter gave direct aid with no return in work, later set men at work in Fairmount Park under the direction of the Park Commission. Men were paid at the rate of \$1 per day, and 14,700 days' work were provided for some 3,500 men. Towards the end of the committee's operations this emergency work entirely displaced the other forms of assistance.

In Pittsburgh, under the stimulus of Mr. Andrew Carnegie's offer to duplicate the amount contributed by the citizens, the Relief Committee obtained subscriptions amounting to about \$180,000. The \$260,000 which thus became available was expended in the employment of about 4,000 men daily, at \$1 a day, in improving the parks of the city. Men were employed only upon the indorsement of the police of the district in which they lived.

Allegheny has raised a relief fund, largely through the efforts of the Department of Charities, amounting to \$25,000; and of this nearly \$20,000 has been expended in wages to men employed on public improvements.

The Relief Committee of Toledo had early in the winter

raised \$15,000, to be expended in park improvements in conjunction with a like sum appropriated by the city.

The Commercial Club Relief Committee of Indianapolis set the men indebted to it for food to work improving the streets and parks of the city. They were paid nominally at the rate of 12½ cents per hour; but, as they received their reward in food at less than half retail prices, the real rate of wages was something like 25 cents per hour.

The Chicago Central Relief Association, in addition to its usefulness in centralizing and systematizing the numerous methods and agencies which were in operation in the early winter, has provided work for heads of families, after investigation, at the rate of 50 cents for five hours' work. As the men were allowed to exchange their work-checks for food at less than one-half the ordinary prices, their real remuneration was much larger than their nominal pay. Work on the streets was provided for several thousand homeless men as a work-test, their pay being given in the form of meals and lodging. They were further allowed to work extra hours to obtain clothing and shoes at manufacturers' prices. The receipts of this association have amounted to \$129,945.

The Citizens' Relief Committee of St. Paul, with the aid of street and park appropriations put in its charge by the city, has furnished 6,504 days' work at \$1 per day, which has been divided among 2,156 laborers.

In Salt Lake City the General Relief Committee has expended some \$11,000, a part of which has been used in employing emergency laborers upon a new boulevard.

In San Francisco, after several not very successful efforts to render assistance to the unemployed, the Citizens' Relief Committee was organized. The \$92,045 raised was used to employ laborers in improving one of the parks of the city; and some twelve miles of roads and paths were thereby constructed. Every dollar of the fund was expended in wages, the park authorities supplying the supervision and tools at an expense of \$15,940. The laborers received \$1 per day, and not over 30 days' work was given to any one man. Mid-day meals were provided for the laborers by the children of the various public schools.

(d) Public work has, in a number of cases, been pushed or anticipated in virtue of the relief committee assuming the difference between the emergency cost and the normal cost. This very ingenious method of setting afloat in wages a considerable sum at a comparatively small outlay by the committee seems to have been peculiar to Boston. The Citizens' Relief Committee of that city arranged for the construction of seventeen sewers which would not otherwise have been undertaken till spring. The relief laborers received \$1.50 for nine hours' work, and were employed in weekly shifts. The city paid the contractors the normal summer cost; and the committee made up the difference between that and the actual cost, guaranteeing the contractor a profit of 15 per cent. upon the labor cost. The deficit, which the committee paid and which was mainly due to unforeseen difficulties of construction, amounted to \$9,660. It enabled contracts amounting to \$32,421 to be executed during the period of greatest exigency, and thus set afloat \$24,168 in wages, of which \$10,254 went to the relief laborers. The Relief Committee further undertook the building of a portion of Talbot Avenue. The total cost was \$5,200, of which \$3,628 went as wages for 2,347 days' labor. The "normal cost" paid by the city was \$3,103. It also undertook to remove earth from certain of the South Boston hills to the strand-way, where it was utilized as filling in place of earth that would otherwise have been dredged from the bay. On this work \$7,935 was expended, of which \$3,520 went to requite 2,347 days' work by the relief laborers, and most of the remainder for trams and other labor. The amount received from the park commissioners and from the owners of the land benefited was \$3,044. On both of these last enterprises the relief laborers were employed in weekly shifts at \$1.50 per day.

D.

Strictly public work has been in a large number of cities either accelerated or even newly undertaken, with the more or less distinct purpose of furnishing emergency employment. The amount of such public work has not, however, been, with a few exceptions, very extensive. This is to be accounted for

partly by the provisions of municipal charters and State laws, making it in many cases difficult or impossible for the cities to appropriate funds for such a purpose, and partly also by the difficulties of prosecuting most sorts of municipal work during the winter. But back of these drawbacks is the fact that the effective public opinion of the community has not been willing to go very far in expending public funds in the prosecution of works which, however desirable in themselves, have been advocated primarily for the ulterior motive of furnishing public employment.

In considering the steps that have actually been taken, it would be desirable to distinguish between public work already under way and work merely somewhat expedited; work contemplated, perhaps, but which would not in ordinary circumstances have been soon begun; and, lastly, work which has been the result of the city authorities seeking out some new thing to do. It would be well to distinguish also, from a slightly different point of view, between public undertakings in which the desire to furnish emergency employment was but an auxiliary object and those of which it was the primary motive. But such an analysis it is difficult to make with confidence, on account of indefiniteness of information as to both the obvious and the hidden influences and motives that have determined the attitude of public officials. It is clear that the million dollars' appropriation for park improvements in New York City was a fairly direct response to the demand of the unemployed for work. It is equally obvious that, for example, in the large appropriation for sewer construction in Dayton, Ohio, the idea of providing employment was only a secondary object. Other cases are, however, not so plain; and it has seemed best not to classify them. The following list covers the larger expenditures, during the winter, of which information has been received. By way of illustration, smaller expenditures are also included in the case of New England. In other parts of the country many of these last are omitted. No notice, moreover, is taken of ordinary municipal expenditures in which the object of furnishing employment does not seem to have had any weight.

In Boston work upon public buildings that would ordina-

rily have been deferred until spring was prosecuted during the winter and in the employ of the Park Department about 400 men were kept at work breaking up stone, and in similar work not ordinarily carried on during the winter. In Lowell a considerable amount of work in the building of sewers and streets has been anticipated, in order to furnish employment. About \$120,000 has been expended, and some 800 men employed. Part of the men have worked in weekly shifts. New Bedford appropriated \$50,000 in January for emergency employment in the parks and streets.

Lawrence made in January an additional appropriation of \$15,000 for emergency work in filling low lands. Some 300 men were employed until nearly the last of March. Springfield has expended about \$23,000 for work on streets and parks which would probably under ordinary circumstances have been deferred. Worcester has expended about \$17,000 in employing some 500 men in emergency work on streets. Taunton, by an appropriation of \$9,985, kept three groups of 200 men each working in alternate gangs for three months in cutting down a gravel hill. Cambridge has anticipated work in connection with the water supply system. Everett has very slightly increased the number of laborers in some of its departments. Salem has expended \$4,000, and North Attleboro \$1,000, in relief work. Public work has been anticipated also at Holyoke and Fitchburg.

Waterbury, Connecticut, appropriated \$10,000 for emergency work on roads; and Bridgeport has expended \$5,000 in similar undertakings.

The city of Providence employed men selected by the Relief Committee in grading streets and abutting property, the city and the owners of the property paying about \$13,000 each. From 400 to 800 men were employed each week in three day shifts. Owing to a difficulty with some of the men as to the number of hours which they should work per day, the plan was given up, and the part of the work left unfinished was let to contractors.

Largely in response to the demands of the unemployed and their sympathizers in New York City, the State legislature by an act of February 2 authorized the park commissioners of

the city to expend \$1,000,000 for the improvement of parks and drives, with the object of furnishing emergency work for the unemployed. There has been much dissatisfaction expressed at the methods of selecting and hiring men employed by the park commissioners and by the labor "expert" who acted as their agent during the first portion of their work, and at the comparatively small number of men for whom work was found. Towards the end of March some 1,500 men were employed. The fund is said to be practically expended; but, as the commissioners are not yet ready to furnish their report of the work, it is too early to form a satisfactory estimate of its efficiency as a relief measure.

Buffalo is said to have expended \$100,000 more than usual, in order to furnish employment during the winter. Lockport employed men in three or four day shifts in emergency work on sewers and streets at an outlay of \$3,000, and in addition expedited ordinary contract work to the extent of about \$32,000. In Rochester an appropriation of \$10,000 was expended in park improvements, and an addition of \$26,800 to the ordinary expenses of street-cleaning for the purpose of furnishing employment. The emergency laborers were given from two to three days per week, and numbers of the regular force had their work cut down to 4½ days per week.

In addition to the \$30,000 appropriation which was exhausted in December, the city of Cincinnati has appropriated \$100,000 for emergency work on the streets and parks. Some \$50,000 of this sum has been expended, and work has been furnished to 4,495 men taken from the lists of the Citizens' Relief Committee. After one week's employment each group of men was laid off for two weeks. Dayton, Ohio, appropriated \$300,000 for sewer construction, which is said to have been hastened to supply emergency work. Some 1,200 men have been employed through most of the winter. Toledo appropriated \$15,000 to be expended in connection with a like amount subscribed by citizens in park improvements.

Huntington, Indiana, is reported to have recently let contracts for sewers amounting to \$200,000. The improvements, it is said, are largely undertaken to supply laborers with work.

In Detroit about \$20,000 had been expended up to January 1 in filling a disused reservoir. The men were employed in shifts. Other city departments have taken on some 350 extra men sent by the Poor Commission.

Minneapolis expended some \$11,500 for emergency labor on sewers, employing 450 resident heads of families 20 to 25 days each.

Chattanooga, Tennessee, expended about \$2,500 in employing men recommended by the Associated Charities in breaking stone for the streets.

The city of St. Louis, by forcing a street railway company to carry out a long-standing contract to enlarge a small lake in one of the parks, has secured employment for 900 men a day for several months. The city has also expedited street improvements with a view to giving employment.

Burlington, Iowa, has expended \$3,000 on street improvements, giving a small amount of employment to a considerable number of men.

Helena, Montana, has expended about \$8,000 in street grading, in order to give employment. Butte City has laid out \$30,000 in sewer construction, partly with the idea of providing work.

In Salt Lake City some \$25,000 has been expended in grading, with a view of furnishing emergency work.

In Seattle \$35,000 was appropriated for sewer works early in the winter, with a view of giving employment to the greatest possible number of men. The laborers are employed in two crews, working alternate fortnights.

In attempting to obtain from the foregoing statements any adequate idea of the prevalence and extent of the various types of relief measures throughout the United States, it must be borne in mind that this article has dealt almost wholly with positive evidence. To give the negative evidence would be only to enumerate a long list of places where correspondents say no to all questions as to any unusual methods or measures of relief, and where the increase even in ordinary forms of assistance has hardly been noticeable. Speaking roughly, it may be said that, so far as can be judged from re-

ports received, the winter has passed without any considerable augmentation of the customary relief in most of the cities of the southern and south-western sections of the country.

The same might be affirmed of some of the Western and Central States which are predominately agricultural, such as Arkansas and Kansas, and — if we except a few of the larger cities — several others. Colorado and other mining States have found far less call for relief measures than during the months of last summer. Even among the Atlantic States the communities of Maine, Vermont, and New Hampshire have regarded special efforts as hardly necessary. The great centres for relief work have been the larger cities of the Atlantic and Pacific States and of the States bordering on the great lakes. On the other hand, it is necessary to remember that the account which has been given has excluded from consideration various considerable factors, such as the special charities of churches, of secret societies, and, with one or two exceptions, of private individuals. How important a factor is the increased credit, gifts, and other favors extended by individual members of the community to their less fortunate members, is indicated by the fact that a careful estimate places the value of private, family, and office giving in New York City during the year ending with February at \$7,300,000, as against \$1,300,000 in a normal year.

With due allowance for the foregoing considerations the results of the present investigation may be briefly summed up. In the important cities of the country, particularly in the manufacturing and commercial centres, there has been a somewhat general increase, ranging all the way from 5 to 300 or 400 per cent. in the work either of the ordinary charitable organizations or of municipal agencies, and often in the work of both. In a considerable number of cities special relief committees have provided for the unemployed food and other supplies, given out, sold, or "loaned" upon various conditions. In a considerable number of cases, also, such committees, either independently or with some degree of co-operation from the municipal authorities, have provided emergency work for those out of employment. Lastly, a not inconsiderable number of cities have begun or expedited public works, at least partly

for the sake of providing employment; but the extent of such employment has not been, relatively speaking, very large. Indeed, it may be said of the various relief measures that, while some of them have been developed only by great effort and devotion on the part of those in charge, none of them have been individually of extraordinary magnitude. Taken in the aggregate, however, they represent a vigorous effort on the part of the community to afford relief to those of its members suffering most severely from the industrial depression.*

CARLOS C. CLOSSON, JR.

* For a note on the number of the unemployed see the Appendix, p. 490.

NOTES AND MEMORANDA.

IN the death of Professor Wilhelm Georg Roscher, in June of the current year, economic science has lost one of its ablest teachers and writers, and perhaps its most learned scholar. Born in 1817, professor at Leipzig continuously from 1848 to 1894, he exercised first an important influence on the development of economic thought in Germany, and gradually made his views felt in every quarter of the globe. His position as the head of the older historical school, his part in the growth of new and wider views, his voluminous and unfailingly scholarly writings, are too well known to the readers of this *Journal* to call for eulogistic notice. It is a striking witness to the continued popularity of his best known book, the *Principles of Political Economy*, that a twenty-first edition was announced by the publishers in 1894, just forty years after its first appearance.

IN our last issue we had occasion to notice the first issue of the *Revue du Droit Public*. Another French periodical now makes a further accession to the large list of those which serve, in greater or less degree, to aid the student of economics and political science. The *Revue du Commerce et de l'Industrie* presented its first number in April, to appear monthly thereafter. The editor is M. Georges Paulet, chief of the bureau of commercial instruction in the Ministry of Commerce.

The prospectus sums up the programme in six words: "législation commerciale, renseignements commerciaux, enseignement technique." The *Revue* is addressed to men of affairs as well as to economists, promising information on means of transport, possible markets, technical education; but there will be a large share of matter for the student of general economics. The first number opens with an article from the well-known pen of M. Levasseur, on trade in agri-

cultural products in the United States, and has also articles on apprenticeship and on the monetary negotiations between France and Italy. There are editorial memoranda on the course of legislation, on commercial news, and technical education. The subscription price for foreign countries is 11.50 francs. The publishers are Berger-Levrault et Cie., Paris.

MR. CHARLES BOOTH, whose volume on the condition of the aged poor in Great Britain is among the important publications of the quarter, announces a second volume on the same subject, to deal with proposals for relief. We note, also, that the fifth and sixth volumes of his *Life and Labor of the People of London* are promised for early publication: they will deal with the trades of London generally.

UNDER the auspices of the American Society for the Extension of University Teaching a series of lectures will be given in Philadelphia during July by eight American economists of the younger generation. President E. B. Andrews will lecture on Money; Professor J. B. Clark, on Distribution; Professor F. H. Giddings, on the Scientific Subdivision of Political Economy; Professor A. T. Hadley, on Theories of Population; Professor J. W. Jenks, on the Relations of Economics and Politics; Professor Mayo-Smith, on the Ethnical Basis for Social Progress in the United States; Professor Patten, on Ricardian Economics, the Premises of Political Economy, and the Theory of Dynamic Economics; Professor Seligman, on Public Finance. The aim of this summer meeting of economists is to give expression to present American economic thought. Detailed information as to dates and terms may be had of the secretary of the Extension Society, Mr. E. T. Devine, 15th and Chestnut Streets, Philadelphia.

AMONG recent publications from the Government Printing Office at Washington, we note two reports prepared by Mr. W. C. Ford, chief of the Bureau of Statistics of the Treasury

Department. The first, on wool and manufactures of wool, while nominally a new edition of the report published on the same subject in 1887, is so much enlarged and remodelled as to be virtually a new publication. It contains a mass of information on the production, imports, prices, and uses of wool in all important countries over a considerable stretch of time. The second, on the commerce of the United States with European countries from 1790 to 1890, contains statistical tables of the total exports and imports for the several countries during the entire period, and tables of the trade in separate articles from 1871 to 1890. Both reports are well arranged and indexed, and present important material in convenient form. We may note, also, that the familiar annual report on the Commerce and Navigation of the United States, prepared by the same Bureau, appears for 1892-93 in a new dress. The volume has become a quarto instead of an octavo, and the sober black binding is replaced by blue. What is more important, the arrangement of the statistics has been improved, and the usual introductory text becomes a careful sketch of the economic history of the year 1892-93, illustrated by a number of interesting charts.

Publications like these are the natural and happy result of putting the direction of the statistical work of the government into trained and competent hands. The reports of the Commissioner of Labor and his assistants show the results of this simple and obvious principle in other directions; and we may perhaps hope that in future administrations the example now set in the preparation of the statistical work of the Treasury Department will continue to be followed.

THE Census Bureau has issued, in advance of the general report on manufacturing industries, a special report on Textiles, giving the results of the census inquiries of 1890 as to manufactures of wool, cotton, and silk, and as to the dyeing and finishing of textiles. In addition to the statistical tables there are accounts of the history and development of these textile industries in their various branches, the whole making

a compact monograph of high value for the economic history of the United States.

Mr. S. N. D. North, who supplies a general introduction, brings together the following summary figures, which show the striking differences in date and rate of growth between the older industries (woollens and cottons) and the newer industry (silks). The total reported value of the products put on the market by these three manufactures in the census years since 1840 was, in millions of dollars:—

Year	Manufactures of		
	Wool	Cotton	Silk
1840	20.7	46.4	
1850	48.6	61.9	1.8
1860	73.5	115.7	6.6
1870	109.3	177.5	12.2
1880	238.1	192.1	41.0
1890	270.5	268.0	87.3

For any careful or detailed use these figures would need much recasting. Allowances and corrections would have to be made in various ways: for changes in the price of the raw materials included in the total value; for the specie premium in 1870; not least, for duplications, especially in recent years, when yarns are reported at their selling value as products of the spinning mills, and appear again in the value of the cloth turned out by the mills which buy the yarn. The need of such corrections is pointed out in one place and another in the report, and will not escape any attentive reader. But even without them the late development of the silk manufacture, as compared with the others, is obvious. It is mainly a product of the high protective policy followed since the Civil War. Whether, in its present stage of growth, it is more dependent on protection than the other industries is another question, on which the evidence is difficult to get, and, indeed, could be got in conclusive form only by a test not likely to be applied for a long time in the future,—competition with the foreign manufacturers in an open market.

RECENT PUBLICATIONS UPON ECONOMICS.

[Chiefly published or announced since April, 1894.]

I. GENERAL WORKS, THEORY AND ITS HISTORY.

- ANDREWS (E. B.). *Wealth and Moral Law*. Hartford: Seminary Press. \$1.
 GIDDINGS (F. H.). *The Theory of Sociology*. Philadelphia: Am. Acad. Politt. and Soc. Sci. 8vo. pp. 80. 50 cts.
 HOBSON (J. A.). *Evolution of Modern Capitalism. A Study of Machine Production*. London: W. Scott. 8vo. pp. 398. 3s. 6d.
 HOFFMAN (F. S.). *The Sphere of the State; or, The People as a Body Politic. With Special Consideration of Certain Present Problems*. New York: G. P. Putnam's Sons. 12mo. \$1.50.
 KÖHLER (O.). *Die wahre Natur des Menschen und der soziale Fortschritt*. Lief. 1. (To be completed in 6 Lief.) Leipzig: E. Grude. 8vo. pp. 72. Per lief., 60 m.
 SMALL (A. W.) and VINCENT (G. E.). *An Introduction to the Study of Society*. New York: American Book Co. 12mo. pp. 320. [Announced.]

In Periodicals.

- BABONE (E.). *A Proposito delle Indagini del Fisher*. Giorn. degli Econ., May.
 BEMES (M.). *Les Deux Directions de la Sociologie Contemporaine*. Rev. d'Econ. Politt., March.
 BÖHM-BAWERK (E.). *Der letzte Maasstab des Güterwerthes*. Zeitschr. f. Volksw., Socialpol., und Verwalt., 3, Heft 2.
 FORNARI (T.). *Guidizii di F. Ferrara intorno ad Alcuni Economisti Italiani [concluded]*. Giorn. degli Econ., April.
 GRAZIANI (A.). *I Valori di Monopolo. La Riforma Sociale*, May.
 PATTEN (S. N.). *Failure of Biologic Sociology*. Annals Am. Acad. Politt. and Soc. Sci., May.
 PEARSON (K.). *Woman and Labour*. Fortnightly, May.
 RITCHIE (D. G.). *Il preteso Diritto Naturale di Proprietà. La Riforma Sociale*, May.
 WEILL (G.). *Le Origini della Dottrina di Saint Simon. La Riforma Sociale*, May.

II. SOCIAL QUESTIONS, LABOR AND CAPITAL.

- ADLER (G.). *Ueber die Aufgaben des Staates angesichts der Arbeitslosigkeit. Akademische Antrittsrede*. Tübingen: Laupp. 8vo. pp. 57. 1.20 m.
 BRASSEY (Lord). *Papers and Addresses on Work and Wages*. London: Longmans. [Announced.]
 BOOTH (C.). *The Aged Poor in England and Wales: Condition*.

- London and New York. Macmillan & Co. 8vo. pp. 523. \$3.50.
- GILMAN (D. C., editor). The Organization of Charities: Report of the Sixth Section of the International Congress of Charities at Chicago, June, 1893. Baltimore: Johns Hopkins Press. 8vo. pp. 432. \$1.50.
- HÄNDTSCHKE (H.). Die gewerblichen Produktivgenossenschaften in Deutschland. Berlin: G. Nauck. 8vo. pp. 337. 7 m.
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APPENDIX.

THE CIVIL WAR INCOME TAX. TABLE I.—SHOWING AMOUNT OF COLLECTIONS, 1863-72.

	1863.	1864.	1865.	1866.	1867.	1868.	1869.	1870.	1871.	1872.	1873.	
1 Income \$500 to \$10,000, 2 1/2% 1863. \$172,770 1864. \$7,944,133 1865. \$3,697,246 1866. \$22,046,759 1867. \$22,553,371 1868. \$32,757,210 1869. \$25,025,068 1870. \$27,115,046 1871. \$10,630,996 1872. \$4,456,450 1873. \$3,927,200	\$172,770	\$7,944,133	\$3,697,246	\$22,046,759	\$22,553,371	\$32,757,210	\$25,025,068	\$27,115,046	\$10,630,996	\$4,456,450	\$3,927,200	\$17,514,170
2 " " \$10,000 to \$25,000, 3% 277,461 6,550,100 3,359,230 20,350,423 20,547,146 29,757,410 23,025,068 27,115,046 10,630,996 4,456,450 3,927,200	277,461	6,550,100	3,359,230	20,350,423	20,547,146	29,757,410	23,025,068	27,115,046	10,630,996	4,456,450	3,927,200	16,454,951
3 " " \$25,000 to \$50,000, 4% 100,501,122 2,500,100 1,359,143 10,350,423 10,547,146 14,757,410 13,025,068 17,115,046 7,630,996 3,456,450 3,927,200	100,501,122	2,500,100	1,359,143	10,350,423	10,547,146	14,757,410	13,025,068	17,115,046	7,630,996	3,456,450	3,927,200	40,130,423
4 " " over \$50,000, 10% 1,000,000 25,000,000 13,591,430 103,504,230 105,471,460 147,574,100 130,250,680 171,150,460 76,309,996 34,564,500 39,272,000	1,000,000	25,000,000	13,591,430	103,504,230	105,471,460	147,574,100	130,250,680	171,150,460	76,309,996	34,564,500	39,272,000	100,501,011
5 " " over \$2,000, 2% 1,572 38,574 169,524 1,572 38,574 169,524 1,572 38,574 169,524 1,572 38,574 169,524	1,572	38,574	169,524	1,572	38,574	169,524	1,572	38,574	169,524	1,572	38,574	100,501,011
6 Income from property of citizens residing abroad, 6% 1,572 38,574 169,524 1,572 38,574 169,524 1,572 38,574 169,524 1,572 38,574 169,524	1,572	38,574	169,524	1,572	38,574	169,524	1,572	38,574	169,524	1,572	38,574	100,501,011
7 Income from property of citizens residing abroad, 6% 1,572 38,574 169,524 1,572 38,574 169,524 1,572 38,574 169,524 1,572 38,574 169,524	1,572	38,574	169,524	1,572	38,574	169,524	1,572	38,574	169,524	1,572	38,574	100,501,011
8 Income interest U.S. securities, 1 1/2% 3,637 70,573 133,402 3,637 70,573 133,402 3,637 70,573 133,402 3,637 70,573 133,402	3,637	70,573	133,402	3,637	70,573	133,402	3,637	70,573	133,402	3,637	70,573	10,507,001
9 Bank dividends and surplus, 10% 1,785,605 \$7,577,010 \$3,991,211 \$4,133,070 \$3,278,222 \$2,914,541 \$3,703,165 \$3,573,272 \$1,542,607 \$2,102,564 \$53,571	\$175,605	\$7,577,010	\$3,991,211	\$4,133,070	\$3,278,222	\$2,914,541	\$3,703,165	\$3,573,272	\$1,542,607	\$2,102,564	\$53,571	\$27,554,094
10 Bank profits undivided, 10% 4,310 92,130 23,611 41,655 436,692 709,853 1,230,092 251,048 47,042 136,002 34,415	4,310	92,130	23,611	41,655	436,692	709,853	1,230,092	251,048	47,042	136,002	34,415	1,270,690
11 Canal Company dividends, 10% 295,486 444,350 766,419 703,253 136,382 216,279 640,459 841,068 2,443,206 2,443,206 8,478	295,486	444,350	766,419	703,253	136,382	216,279	640,459	841,068	2,443,206	2,443,206	8,478	6,689,070
12 Railroad Co. dividend, 10% 338,353 927,303 2,417,914 2,205,882 3,379,292 4,251,180 1,503,416 2,803,602 1,121,430 1,851,296 760,500	338,353	927,303	2,417,914	2,205,882	3,379,292	4,251,180	1,503,416	2,803,602	1,121,430	1,851,296	760,500	21,415,738
13 Interest on bonds, 10% 293,998 686,550 28,212 1,255,916 39,703 49,552 22,231 32,230 11,738 14,140 2,779	293,998	686,550	28,212	1,255,916	39,703	49,552	22,231	32,230	11,738	14,140	2,779	9,587,594
14 Turnpike Co. dividend, 10% 1,559,952 3,656,242 9,516,574 7,943,794 1,073,971 8,354,418 9,201,322 9,551,299 5,003,436 6,735,099 1,017,545	1,559,952	3,656,242	9,516,574	7,943,794	1,073,971	8,354,418	9,201,322	9,551,299	5,003,436	6,735,099	1,017,545	68,250,002
15 Salaries, U.S., 10% 690,181 1,705,124 3,717,204 3,717,204 1,073,971 1,043,551 661,902 1,109,608 787,202 294,554 117,541	690,181	1,705,124	3,717,204	3,717,204	1,073,971	1,043,551	661,902	1,109,608	787,202	294,554	117,541	13,689,004
16 Special Income Tax of 1864, 10% \$2,741,898 \$20,294,731 \$32,060,017 \$72,862,169 \$66,014,439 \$41,455,698 \$34,701,576 \$37,775,873 \$19,152,650 \$14,456,901 \$5,002,311	\$2,741,898	\$20,294,731	\$32,060,017	\$72,862,169	\$66,014,439	\$41,455,698	\$34,701,576	\$37,775,873	\$19,152,650	\$14,456,901	\$5,002,311	\$346,768,247
17 Total Receipts from Int. Rev., 10% \$41,003,192 \$117,145,746 \$211,150,029 \$318,900,584 \$285,520,434 \$191,180,504 \$190,002,544 \$185,528,587 \$144,011,176 \$131,770,946 \$114,075,486	\$41,003,192	\$117,145,746	\$211,150,029	\$318,900,584	\$285,520,434	\$191,180,504	\$190,002,544	\$185,528,587	\$144,011,176	\$131,770,946	\$114,075,486	\$1,872,415,285
												\$376,150,299
												17

TABLE II.

ESTIMATES OF TAXABLE INCOME RETURNED FOR ASSESSMENT.

[00,000 omitted.]

	1863.	1864.	1865.	1866.
Over \$600 and not over \$10,000 (3%),..	264,8	323,2		
" " " " " \$5,000 (5%),..			520,9	451,0
" \$10,000 (5%),.....	137,1	187,3		
" \$5,000 (10%),.....			345,0	255,4
TOTAL,.....	401,9	510,4	865,9	706,5
Over \$600 (5% Sp. Inc. Tax),.....		578,5		

	1867.	1868.	1869-70 (average).	1871-73 (average).
Over \$1,000 (5%),.....	548,3	467,8	518,9	
" \$2,000 (3½%),.....				321,9

The above estimates are for the most part based upon the annual collections which are given in Table I. The difficulty in making such estimates is that the successive annual collections do not accurately represent the annual assessments, so that we do not know how much of the collections in any fiscal year belong to the assessment of that year and how much to the assessment of the preceding year. Down to 1867, however, all but a small fraction of each annual assessment would be collected in the next fiscal year; for instance, as the law then stood, the tax assessed in 1863 on the income of 1862 did not become due until June 30, 1863, and consequently nearly all of it would be collected in the fiscal year ending June 30, 1864. It is safe to assume, then, that the amount of personal income tax collected in 1864 represents very nearly the assessment of 1863;* and on that assumption the amount of income taxed in 1863 must have been approximately \$402,000,000, of which \$265,000,000 was assessed at 3 per cent. and \$137,000,000 at 5 per cent.

* We need not add the small amount, \$450,231, collected in 1863. That may be offset against a corresponding small amount which probably belonged to the assessment of 1864, but was collected before the beginning of the fiscal year 1863.

The estimates for 1864 and 1865 have been obtained in the same way. But when we come to the year 1866 we must take into consideration the effect of the change in the date on which the collections began. Under the act of 1867 the tax became due April 30, and the result was that a considerable portion of the assessment in any year was collected before the close of the same fiscal year; the balance would be comprised under the collections of the next year. Under this system an annual collection cannot be taken to represent the assessment of either the same year or the preceding year.*

The collections for 1867 included not only the tax assessed in 1866, but also so much of the assessment of 1867 as was collected in the two months of May and June. The commissioner's report states that the latter amount was \$8,939,173, and the balance, \$48,101,467, belongs to the assessment of 1866. In the tabulated returns, however, these two amounts are not separated. But the amount belonging to the assessment of 1867 must have been included under the 5 per cent. collections. It is safe to assume, then, that the assessment of 1866 was nearly as follows:—

Tax assessed at 5 per cent.	\$22,553,521
Tax assessed at 10 per cent.	\$25,547,947

On this basis the assessed income has been computed at the amount given in the table.

There is no difficulty in obtaining reliable estimates for 1867 and 1868; for the assessments of the years are given in the commissioner's reports; but we fail to find the assessments for 1869 and 1870. But the average of these two years has been obtained by deducting from the total amount collected under the Act of 1867 the amount covered by the first two assessments and dividing the remainder by two. The two assessments could not have differed very widely. For similar reasons it has been necessary to represent the assessments of 1871 and 1872 by an average.

It will be seen, therefore, that these estimates are simply approximations, serving to show the direction, and roughly the extent, of the changes in the returns of taxable income in different years. The amount of tax collected does not show this, partly because of changes in the rates and partly for the reasons just explained.

*The following table shows how the law worked:—

<i>Fiscal Amount year. collected.</i>	
1867. \$57,040,640=	{ \$48,101,467 assessed in 1866. 8,939,173 } = \$27,714,936=assessment of 1867.
1868. \$32,027,610=	{ 18,478,783 13,548,827 } = \$33,390,370=assessment of 1868.
1869. \$25,025,068=	{ 9,341,543 15,183,525 assessed in 1869.

We have not the data for continuing the table, but it suffices to show the want of correspondence between the assessments and the collections.

TABLE III.
NUMBER OF PERSONS ASSESSED.

	1867	1868	1869	1870	1871	1872
Number returning incomes over \$1,000 and not over \$1,400,	101,219	106,588	107,997	112,874		
Number returning incomes over \$1,400 and not over \$2,000,	68,680	55,949	69,184	68,900		
Number returning incomes over \$2,000 and not over \$2,800,					25,479	22,819
Number returning incomes over \$2,800 and not over \$3,000,	40,896	38,967	41,196	40,839		
Number returning incomes over \$3,000 and not over \$4,000,					19,798	18,861
Number returning incomes over \$3,000 and not over \$11,000,	46,055	51,188	45,002	44,733		
Number returning incomes over \$4,000 and not over \$6,000,					12,917	12,320
Number returning incomes over \$6,000 and not over \$12,000,					10,742	11,302
Number returning incomes over \$11,000, Number returning incomes over \$12,000 and not over \$22,000,	9,282	7,965	9,464	9,316	3,707	4,304
Number returning incomes over \$22,000,					2,135	2,490
TOTAL,	266,135	254,617	272,843	276,661	74,775	72,940
Number returning incomes over \$2,000,	96,336	98,110	95,602	94,887	74,775	72,940
Number returning incomes over \$3,000,	55,337	59,153	54,466	54,048		
Number returning incomes over \$2,800,					49,296	50,320
Number returning incomes over \$11,000,	9,282	7,965	9,464	9,316		
Number returning incomes over \$12,000, Number returning incomes over \$2,000 and not over \$3,000,	40,896	38,967	41,196	40,839	5,942	6,733
Number returning incomes over \$2,000 and not over \$2,800,					25,479	22,819
Number returning incomes over \$3,000 and not over \$11,000,	46,055	51,188	45,002	44,733		
Number returning incomes over \$2,800 and not over \$12,000,					43,454	43,577

There are no published statements of the number of persons assessed during the first three years after the income tax went into operation. In the year 1866 the total number for the entire country was 460,170. For 1867 and incompletely for 1868 the number is given by States and districts; but there are no such detailed statistics for the years which follow. Beginning with 1867, however, we have given for each year the total number assessed divided into classes on the basis of the amount of tax paid. These returns are presented in Table III., together with some computations based upon them. The amount of income is computed from the tax, and includes the minimum exempted from taxation, but not the amount covered by other forms of exemptions or deductions. Since the tax basis remains the same, the income basis changes after the Act of 1870, reducing the rate and raising the exemption, went into force.

TABLE IV.—SHOWING BY STATES AMOUNT OF TAX COLLECTED IN SUCCESSIVE FISCAL YEARS.
[000 omitted.]

	FIRST PERIOD.				SECOND PERIOD.				THIRD PERIOD.				FOURTH PERIOD.			
	1864.		1865.		1866.		1867.		1868.		1869.		1870.		1871.	
	3 per cent.	5 per cent.	3 per cent.	5 per cent.	5 per cent.	10 per cent.	Total.	5 per cent.	10 per cent.	Total.	5 per cent.	10 per cent.	5 per cent.	10 per cent.	5 per cent.	10 per cent.
California,.....	430	148	473	238	711	324	1,036	1,057	1,067	1,016	1,142	1,017	1,017	1,017	1,017	1,017
Connecticut,....	215	154	205	194	399	626	1,036	1,067	1,067	1,016	1,142	1,017	1,017	1,017	1,017	1,017
Dist. Columbia,	105	38	146	28	83	45	135	297	345	407	215	184	189	19	43	153
Georgia,.....	350	224	586	323	875	1,038	2,451	1,980	735	2,715	1,613	1,463	1,166	167	164	105
Illinois,.....	541	354	1,118	90	408	1,037	472	1,060	660	2,117	1,315	1,346	1,328	234	58	66
Iowa,.....	241	135	353	401	159	411	1,060	1,060	316	343	190	205	163	29	22	31
Kentucky,.....	214	135	353	401	159	411	1,060	1,060	316	343	190	205	163	29	22	31
Louisiana,.....	25	4	32	67	107	134	1,060	1,060	316	343	190	205	163	29	22	31
Maine,.....	86	15	101	77	23	99	101	311	226	343	190	205	163	29	22	31
Maryland,.....	285	220	304	291	586	801	1,060	1,060	316	343	190	205	163	29	22	31
Massachusetts,...	868	1,014	1,060	878	1,278	2,157	4,264	6,781	844	1,458	1,023	1,023	1,023	1,023	1,023	1,023
Michigan,.....	135	29	164	159	44	204	520	262	783	1,060	1,060	1,060	1,060	1,060	1,060	1,060
Missouri,.....	205	168	286	238	544	557	806	1,354	617	1,971	1,131	1,131	1,131	1,131	1,131	1,131
New Hampshire,...	44	5	59	53	9	62	143	209	174	46	166	114	114	114	114	114
New Jersey,.....	325	156	292	270	632	1,147	2,217	1,138	919	2,057	1,593	1,593	1,593	1,593	1,593	1,593
New York,.....	2,035	4,921	2,292	3,672	6,964	5,983	12,289	18,282	7,020	10,173	9,700	8,196	8,145	4,906	1,277	3,070
Ohio,.....	741	370	1,117	960	1,617	2,653	2,629	5,182	2,856	3,404	1,576	1,576	1,576	1,576	1,576	1,576
Pennsylvania,...	1,075	942	1,229	1,423	2,652	3,690	5,986	9,086	3,679	7,075	3,739	2,657	3,721	2,303	1,053	879
Rhode Island,...	106	257	364	264	387	276	918	1,195	639	764	1,353	1,353	1,353	1,353	1,353	1,353
South Carolina,...	2	2	25	80	87	210	304	296	41	8	194	76	117	35	13	19
Tennessee,.....	22	2	40	6	16	136	166	166	72	368	229	190	221	26	46	50
Virginia,.....	36	3	10	0	16	11	178	136	11	178	136	134	180	27	27	43
Vermont,.....	30	1	38	50	58	161	205	70	50	86	50	59	86	4	24	4
Wisconsin,.....	101	23	139	56	186	317	519	462	117	579	254	254	194	36	67	6
All other States,	196	67	263	138	425	771	1,196	1,372	412	1,784	1,372	984	1,255	373	101	327
TOTAL,.....	7,944	8,305	8,799	8,362	19,059	26,946	60,547	81,462	25,547	87,040	83,027	25,025	27,115	10,680	23,753	23,227

TABLE V.

ESTIMATES OF THE AMOUNT OF TAXABLE INCOME RETURNED IN THE
DIFFERENT STATES.

[00,000 omitted.]

UNION STATES.	ASSESSMENT OF 1863.			1864			1865			1870	1871 to 1872 (aver- age)
	\$600 to \$10,000	Over \$10,000	Total.	\$600 to \$10,000	Over \$10,000	Total.	\$600 to \$5,000	Over \$5,000	Total.	Over \$1,000	Over \$2,000
California.....	\$14.3	\$3.0	\$17.3	\$15.7	\$4.7	\$20.5	\$16.4	\$4.7	\$21.1	\$20.2	\$3.1
Connecticut.....	7.1	3.1	10.2	6.8	3.8	10.7	12.5	10.3	22.8	14.2	6.7
Dist. Columbia.....	3.5	0.7	4.2	1.8	0.5	2.4	4.2	1.3	5.5	3.7	2.2
Delaware.....	1.6	0.5	2.1	1.9	1.0	2.9	2.8	0.9	3.7	1.3	0.8
Illinois.....	12.1	4.4	16.4	20.7	5.0	25.7	36.2	16.3	52.6	23.3	8.7
Indiana.....	7.7	0.6	8.3	10.6	1.8	12.4	20.7	4.7	25.4	6.5	2.6
Iowa.....	1.8	0.0	1.9	3.7	0.0	3.7	8.2	0.6	8.8	3.2	1.2
Kentucky.....	7.1	2.7	9.8	16.3	3.1	19.5	17.1	5.4	22.5	11.4	4.4
Maine.....	2.8	0.3	3.1	2.5	0.4	3.0	4.2	1.0	5.2	3.0	1.3
Maryland.....	9.9	4.4	13.4	10.1	5.3	15.0	16.0	9.8	25.8	17.2	10.1
Massachusetts.....	23.9	20.2	49.2	23.2	25.5	54.3	50.1	42.5	92.6	63.9	44.4
Michigan.....	4.5	0.6	5.0	5.3	0.8	6.1	10.4	2.6	13.0	9.0	5.9
Minnesota.....	0.5	0.0	0.5	0.9	0.0	0.9	1.1	0.2	1.4	1.5	0.9
Missouri.....	6.8	5.5	10.1	9.5	5.1	14.6	11.1	8.0	19.2	12.5	4.1
Nevada.....	0.9	0.2	1.1	1.3	0.3	1.6	1.8	0.1	1.9	1.7	0.7
New Hampshire.....	1.4	0.1	1.5	1.7	0.1	1.9	2.8	0.8	3.5	2.3	1.2
New Jersey.....	10.9	3.1	14.0	13.0	5.4	18.4	22.9	10.7	33.6	24.4	14.6
New York.....	67.8	56.6	124.5	75.4	73.4	149.8	119.8	122.8	242.7	182.9	117.1
Ohio.....	24.7	7.4	32.1	32.6	12.3	45.0	53.0	25.2	78.3	28.7	16.5
Oregon.....	0.9	0.1	1.1	0.5	0.0	0.5	1.4	0.2	1.6	3.4	1.3
Pennsylvania.....	35.8	18.8	54.7	40.9	28.4	69.4	73.8	59.9	133.7	74.4	42.7
Rhode Island.....	3.5	5.1	8.6	4.0	5.2	9.3	5.5	9.1	14.7	7.1	5.0
Vermont.....	1.2	0.0	1.2	1.6	0.1	1.8	3.1	0.5	3.7	1.1	0.6
West Virginia.....	0.9	0.1	1.1	1.6	0.6	2.2	2.7	1.1	3.9	1.5	0.7
Wisconsin.....	3.3	0.4	3.8	4.6	1.1	5.7	6.3	2.0	8.3	3.9	2.6
All Others.....	1.5	0.2	1.8	3.2	0.6	3.9	5.3	1.4	6.8	5.4	2.4
TOTAL.....	\$263.5	\$137.0	\$400.6	\$322.6	\$187.2	\$509.8	\$517.9	\$344.8	\$862.8	\$509.0	\$306.7

The estimates in Table V., like most of those in Table II., are based upon the amount of tax collected in different years. The collections by States are given in Table IV. The estimates for the first three years have, as before, been computed on the assumption that the collections of each year are practically equivalent to the assessments of the preceding year. But, for the reasons explained in connection with Table II., we cannot make use of that assumption when we come to the collections of 1867; and it is not possible to ascertain from any published data what part of the collections in each State belongs to the assessment of 1866,

and what part to the assessment of 1867. In view of this uncertainty it is useless to attempt to estimate the taxable income returned by States in 1866; this is all the more regrettable because that year shows a falling off in the returns which cannot be explained by any change in the rate or the exemption. It would be interesting to know whether the ratio of decrease was practically the same in all States, or more marked in some than in others.

Similar difficulties stand in the way of making estimates for the four years which follow. The tax of 1867 was not collected as promptly as the subsequent assessments were; and the uncollected balance at the close of that year makes the collections of 1868 abnormally large. The collections of 1869, on the other hand, are below the average because of the defective assessment of 1868. But the collections of 1870 may be assumed to fairly represent the yield of a normal assessment under the Act of 1867. On this basis the estimates given in the table have been computed. The returns for the years 1871 and 1872 have been averaged as was done in preparing Table II.

THE NUMBER OF THE UNEMPLOYED.

Trustworthy information as to the numbers of persons out of employment in the various cities during the past winter, however essential for a just understanding of the relief measures resorted to, is in most cases impossible to obtain. In the case of most cities nothing more than an estimate can be secured. A word may be said about such statistical data as are available.

A census of the unemployed in Philadelphia taken by the police force in November showed 46,859 persons then out of work who a year before had been earning regular wages. A similar census in Cincinnati indicated the number of unemployed workingmen as 5,149; and the decrease of the total number of persons employed, as compared with the number in 1892, as 7,020. In Chicago a police canvass of 2,200 large manufacturing and wholesale establishments showed in September a decrease in the working force of 75,000, or 40.3 per cent. A much more limited report obtained two months later from 250 establishments pointed to a decrease of but 16.7 per cent. A December canvass in Milwaukee showed some 11,200 males out of employment.

In Boston an estimate, based on the assumption that 5 per cent. of those engaged in transportation and personal employment, 10 per cent. of clerks and domestic servants, and (as indicated by statements of trades-union officers) 37 per cent. of wage-earners of the manufacturing and laboring class were out of employment, placed the total number of unemployed workers early in December at about 38,000. A police canvass taken a little later resulted in the return of but 5,063 names of unemployed adults. It is probable, however, that the police somewhat neglected streets or blocks where residents were, often wrongly, assumed not to be affected; and it is certain that a proportion of the unemployed who did receive blanks of inquiry did not fill them out. At the office of the Citizens' Relief Committee 7,446 men and 3,510 women were registered, and a total of about 10,000 persons were furnished with employment.

The Commissioner of Industrial Statistics of Maryland, in a bulletin issued March 1, using trades-union returns much as did the Boston estimate, but without making the same allowances for the smaller proportion in certain occupations, calculated that 38 per cent. of the 90,000 working people of Baltimore, or 33,900, were out of employment.

A census taken in Brooklyn showed 46,688 males and 9,988 females out of employment, making a total of 56,676, of whom 19,873 were reported in need of assistance.

A police census of the tenement-house district of New York City, tabulated early in February, disclosed 48,681 families which had one or more members out of work. Of the 78,023 persons in these families who were usually employed, 67,280 (52,592 males and 14,088 females) were at that time deprived of employment. 39,311 families, including some 169,000 persons, reported that they were in need of assistance.

The Commissioner of Statistics of Labor of the State of New York made in December an inquiry into the effects of the depression on manufacturing interests. Of 2,011 establishments in 64 general industries, 470 had kept their usual force on full time, 199 were entirely closed, 225 had closed, but later resumed at least in part, 1,087 were partially closed. These partially closed establishments retained on the average 67 per cent. of their employees, and kept them at work from 5 to 100 per cent. of the ordinary working time. The periods for which establishments had been partially or entirely closed ran from one week to eight months; but the larger part were closed from two weeks to three months.

A similar investigation by the Labor Bureau of Michigan showed that, of 2,066 factories canvassed from September to February, 377, including some of the largest in the State, were altogether idle. Of those in operation, 572 were running short time, at a loss to labor of 82,627 hours per week. The number of men who were reported in March as laid off was 48,725. The total loss to labor in the 2,066 factories inspected was 1,763,060 working days during the five months from September to February.

All of the foregoing statistics are drawn from communities which have been most severely affected by the industrial depression. As representative of the portions of the country where there has been during recent months a far less degree of enforced idleness, the investigation of the Commissioner of Labor of the State of New Hampshire is of interest. Reports received from officials of 210 of the 234 towns and cities of the State give the estimated number of persons unable to obtain employment as 2,968, the number wholly or in part dependent on charity as 1,980.

The following are numerical estimates of the number of the unemployed in various cities and towns received since the publication of the article on this subject in the January number of this *Journal*. All except those enclosed in parentheses were furnished by public officials or officers or charitable organizations or relief committees. In considering them, it should be remembered that statements received from many localities, especially from smaller places, and from cities in the Southern, South-western, and agricultural States, indicate that few, if any, more are unemployed than in ordinary years, and that, at least according to newspaper reports, there has been during the spring a brisk demand for labor in many agricultural communities, as, for example, in Georgia, in Mississippi, and even in such States as Connecticut, Massachusetts, Pennsylvania, New Jersey, and New York.

APPENDIX

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<i>State and City.</i>	<i>Date.</i>	<i>Police Census.</i>	<i>Conservative Estimate.</i>	<i>Current Estimate.</i>
MASSACHUSETTS.				
Boston,	December,	5,063	35,000	—
Cambridge,	December,	830	—	—
CONNECTICUT.				
Bridgeport,	January,	—	2,500	4,000
RHODE ISLAND.				
Providence,	January,	—	4,800	—
NEW HAMPSHIRE.				
Concord,	—	—	less than 100	—
NEW YORK.				
New York,	December,	67,280	80,000	—
Brooklyn,	—	56,678	—	—
Rochester,	—	—	—	5,000-10,000
Syracuse,	in winter,	3,000	—	—
Schenectady,	to April,	—	4,400	—
Lockport,	—	—	280	—
NEW JERSEY.				
Elizabeth,	winter and spring,	—	more than 2,000	—
Orange,	—	—	1,000	—
Bridgeton,	April,	—	1,000	—
Bayonne,	—	—	325	—
PENNSYLVANIA.				
Pittsburg,	—	over 15,000	18,000	—
Harrisburg,	—	—	3,000-4,000	—
Scranton,	November,	2,500	—	—
Phoenixville,	—	—	2,000	—
Beaver Falls,	—	—	300	—
MARYLAND.				
Baltimore,	March,	33,900	—	—
DELAWARE.				
New Castle,	March,	400	—	—
VIRGINIA.				
Roanoke,	—	500	—	—
OHIO.				
Dayton,	—	—	3,000	—
Zanesville,	—	about 1,000	—	—
INDIANA.				
Terre Haute,	—	1,600	—	—
New Albany,	—	—	1,200	—
Anderson,	—	—	1,000	—
ILLINOIS.				
Freeport,	—	350	—	—
Quincy,	January,	—	—	400
MICHIGAN.				
Detroit,	—	—	18,000-20,000	—
Detroit,	April,	—	(30,000)	—
Manistee,	April,	—	180	—

<i>State and City.</i>	<i>Date.</i>	<i>Police Census.</i>	<i>Conservative Estimate.</i>	<i>Current Estimate.</i>
WISCONSIN.				
Milwaukee,	December,	11,200 males	—	—
La Crosse,	February,	—	2,000 men	—
MINNESOTA.				
Minneapolis,	April,	—	8,000	—
St. Paul,	—	—	3,000-7,000	—
Duluth,	—	1,500	—	—
St. Cloud,	—	—	400	—
KENTUCKY.				
Louisville,	December,	15,000	—	—
Maysville,	—	—	500	—
TENNESSEE.				
Memphis,	—	—	5,000	—
Nashville,	—	—	1,500-2,000	—
Jackson,	—	—	200	—
GEORGIA.				
Columbus,	"at times,"	—	300-400	—
Macon,	—	—	300	—
FLORIDA.				
Jacksonville,	"at times,"	—	200	—
LOUISIANA.				
Donaldsonville,	April,	—	200	—
NEBRASKA.				
Omaha,	winter,	—	10,000	—
KANSAS.				
Arkansas City,	winter,	—	500	—
Ablene,	April,	—	200	—
OKLAHOMA.				
Guthrie,	—	—	200	—
Oklahoma City,	—	—	50	—
MONTANA.				
Butte City,	—	2,000	—	—
COLORADO.				
Denver,	winter,	—	12,000	12,000
UTAH.				
Salt Lake City,	April,	—	2,750	—
IDAHO.				
Pocatello,	—	—	55	—
CALIFORNIA.				
San Francisco,	October to April	—	(20,000)	—
Fresno,	—	—	300	—



